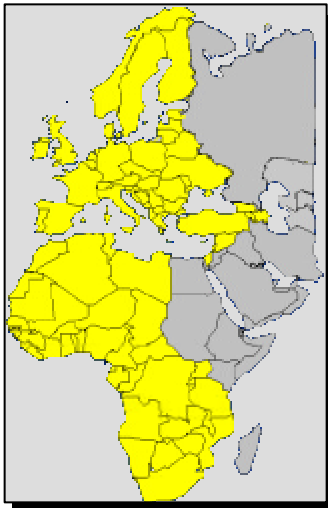


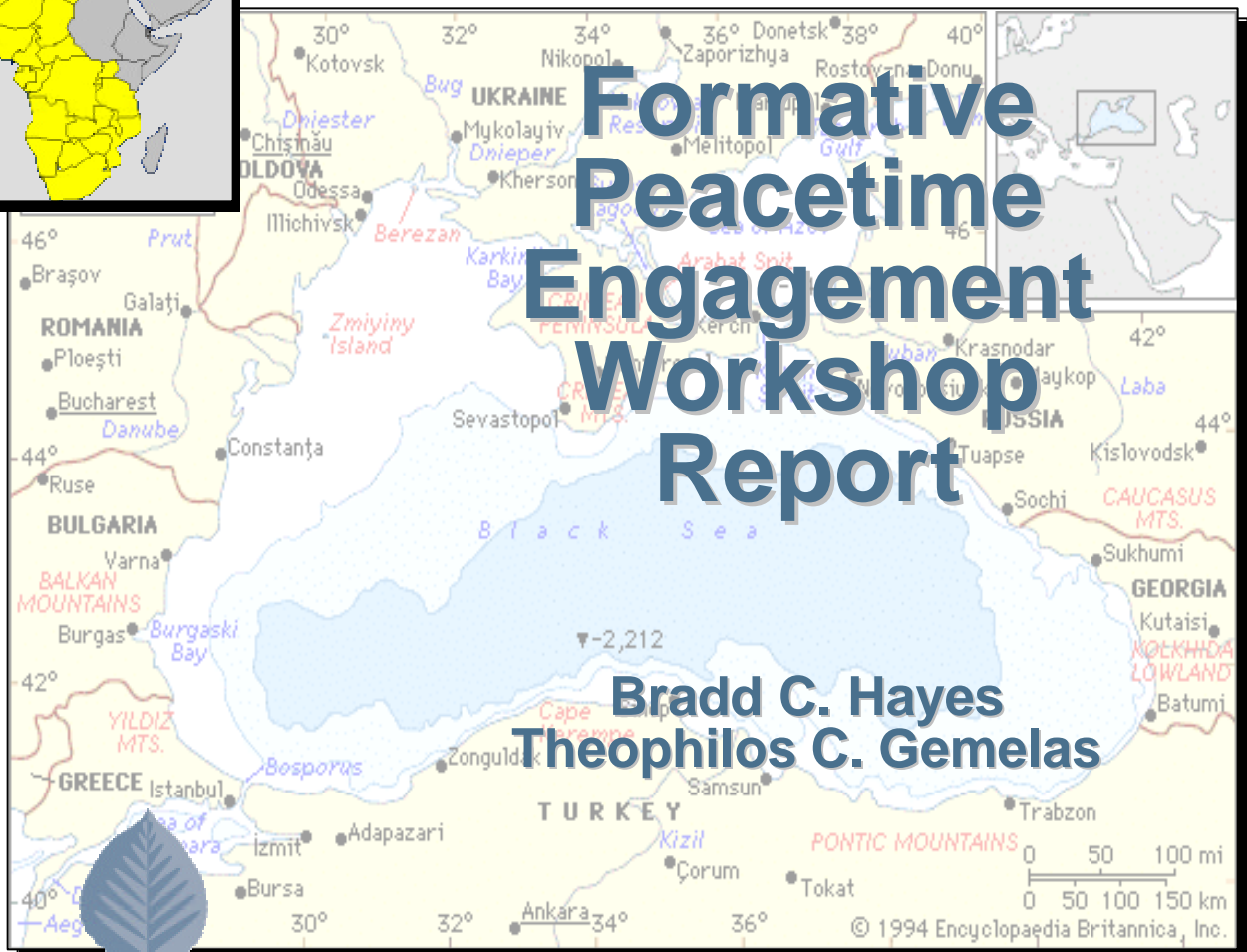


Decision Support Department
Report 99-2



Formative Peacetime Engagement Workshop Report

Bradd C. Hayes
Theophilos C. Gemelas



FORMATIVE PEACETIME ENGAGEMENT WORKSHOP REPORT

**Bradd C. Hayes
Theophilos C. Gemelas**

The content and conclusions presented in this report are the sole responsibility of the authors and should not be deemed to reflect the official position of any U.S. Government department or agency.

PREFACE

This paper is the first in a series of reports that will explore the concept of formative peacetime engagement. This multi-year project is sponsored by the Commander, U.S. Naval Forces, Europe (CNE), and will examine the utility of cross-sector partnerships as a vehicle to address sources of change that lead to crisis or instability. CNE's intent is to prevent or mitigate crisis by understanding the root causes of instability. Project leaders are Professors Theophilos C. Gemelas (401.841.4055 or gemelast@nwc.navy.mil) and Bradd C. Hayes (401.841.2021 or hayesb@nwc.navy.mil) of the U.S. Naval War College located in Newport, Rhode Island. The report is also available via the Naval War College web site at www.nwc.navy.mil/cnws.

Special appreciation and gratitude is extended to The Aspen Institute for use of its facility, and to Sharee Calverley and Mary McKinley of the Aspen staff for their generous assistance.

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Introduction



Critics of recent U.S. foreign policy are using the end of the Kosovo crisis as a time to reevaluate America's interests and how it should use its armed forces. Pundits feel the timing is especially propitious since many of the current crop of presidential candidates are just beginning to formulate their own foreign and defense policies. According to *The Economist*, four

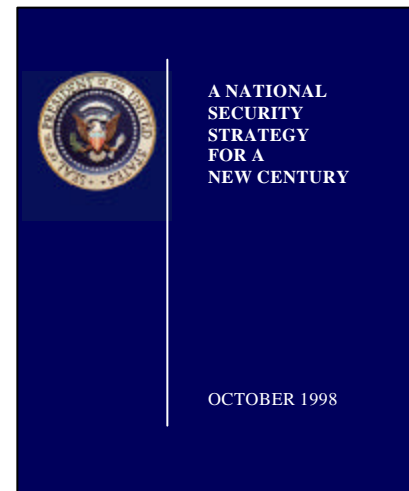
lines of criticism are receiving the most attention. First, the United States "has spent too much time seeking to shape other countries' internal politics." Second, it "has spent too much time on ad hoc humanitarian interventions and not enough on the traditional concern of great powers — relations with other powers." Third, quoting Henry Kissinger, "The armed forces have become the instrument of choice" in conducting foreign policy. Finally, even those who are "broadly sympathetic to the principle of humanitarian intervention ... think it has been too crudely applied."¹ If these trends represent a growing consensus among politicians, then the military should expect to be involved in fewer Kosovo-type interventions in the near term; thus, begging the question, "what will the military be doing?"

In partial answer to this question, the staff of the Commander in Chief, U.S. Naval Forces, Europe, (CNE) requested Naval War College (NWC) assistance in examining a new concept for peacetime engagement. Their interest is based on two interconnected factors. First, the United States National Security Strategy identifies "engagement" as one of America's critical challenges. Not all "engagement," however, is of the same nature, character, or importance — as will be discussed below. The second factor involves resources. Military resources are declining even though the number of

operations they support remains high. Crisis

response makes greater demands on military resources than normal peacetime operations. By dealing with the root causes of instability that lead to crisis, and the resultant large expenditures of military assets, the CNE staff believes that pre-crisis engagement will enhance peace and stability in the region and save irreplaceable military

resources.



As noted above, not all engagement is of the same nature or importance. During the Cold War, operational engagement with allies remained one of the Navy's top priorities.

¹ "Where do America's interests lie?" *The Economist*, 18–24 September 1999, pp. 29–30.

Although maintaining ties with traditional friends and allies is critical, for the most part, these relationships require a steady hand rather than new programs. At the same time, new engagement strategies must be developed for emerging U.S. interests in the new strategic environment. For example, the priority for engagement activities with newly independent states increased following the Cold War, as did the priority for engagement activities in areas that form today's regions of crisis. Not only are traditional engagement patterns lacking in these areas, the type of engagement required is much different. CNE refers to this new focus as "formative engagement."

In conducting formative peacetime engagement, CNE wants to look beyond traditional kinds of engagement activities (such as routine port calls, military exercises, small community assistance projects, and the like) and explore the value of establishing partnerships across a number of communities. Its goal is to determine if such partnerships could achieve America's foreign policy objectives as well as benefit developing countries by lending support to on-going indigenous projects that are aimed at mitigating the underlying causes of crisis. Leveraging limited military capabilities by supporting others (that is, interested parties in diplomatic, commercial, international and non-governmental circles), may help to achieve this goal by exploiting common areas of interest, cooperating to the maximum extent possible, and addressing problems before they lead to crisis and conflict.

As a first step, the Naval War College organized a workshop to examine opportunities created by partnering with other U.S. Government programs in a selected region — in this case, the Black Sea. The workshop was held at The Aspen Institute in Washington, DC, on 22 September 1999, and participants represented a number of U.S. military and government officials [see Appendix A].



The Black Sea region was selected as the area of focus because, when the CNE staff first began thinking about the problem of formative peacetime engagement, it was estimated that the Caucasus region contained vast oil reserves that could rival those of the Persian Gulf. Even though that forecast proved inaccurate, for research purposes the study focus remained the same.

Most of those approached to participate in the workshop were enthusiastic about the concept and believed CNE had a vision that deserved serious examination. In his 1998 national security strategy, President Bill Clinton insisted, "We must be prepared and willing to use all appropriate instruments of national power to influence actions of other states and non-state actors. Today's complex security environment demands that all our instruments of national power be effectively integrated to achieve our security objectives. We must ... remain the preferred security partner for the community of states that share our national interests."² He went on to declare that the alternative to engagement was not withdrawal but submission. The integration of national power called for by the President

² *A Security Strategy for a New Century*, The White House, October 1998, p. 1.

cannot be achieved without the establishment of cross-sector partnerships and integrated coordination.

In examining current U.S. foreign policy, Dr. Francis Fukuyama identified three underlying principles that guide it. First, Liberal democracies tend not to fight one another; therefore, enlarging the democratic "zone of peace" can enhance security. He further notes, "It is liberalism more than democracy that is the true institutional basis for the so-called democratic peace." Second, the best means of promoting democracy is through economic development. Fukuyama points out that, "development ... has a critical impact on the likelihood that democracy will be stable: above a level of \$6000 per capita GDP in 1992 parity purchasing power, there is not a single historical instance of a democratic country reverting to authoritarianism." Finally, the best way to promote economic growth is to integrate a country into the liberal capitalist trade and investment regime. Although financial development is well outside the ken of the military, the impacts of such development directly effect the security environment. "Movement in one area," Fukuyama contends, "[is] expected to promote movement in another ... which would then enlarge the democratic zone of peace and promote the security of those nations inside it."³

Given the mission of engagement by the Commander in Chief and examining the underlying principles of American foreign policy, CNE determined there was room for improvement in meeting those imperatives. The process now underway is designed to determine which courses of action appear most feasible, appropriate, and effective.

The next section of this report covers observations made by participants during the workshop as well as observations made by the moderators. The final section of the report provides some conclusions and specific recommendations drawn from the workshop.



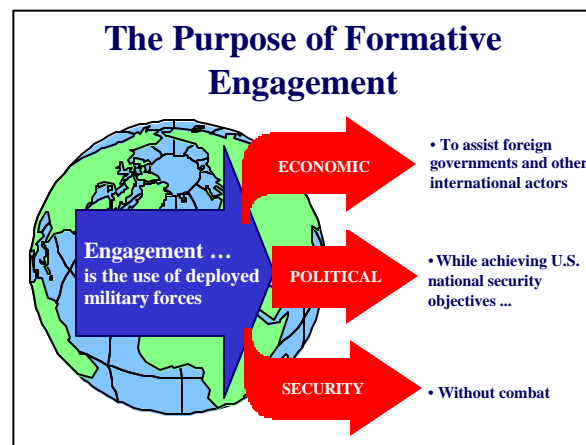
³ Francis Fukuyama, "Second Thoughts: The Last Man in a Bottle," *The National Interest*, Summer 1999, pp. 16-27.

Workshop Objectives and Results

When it was determined that a workshop of U.S. Government departments and agencies would be beneficial, the following goals were established:

- Understand the dynamics of cross-sector engagement
- Establish partnerships with other U.S. Government departments and agencies
- Identify current U.S. Government programs underway in the Black Sea region that could form the basis of potential partnerships (see Appendix B)
- Understand the capabilities and resources that other U.S. departments and agencies bring to a region
- Solicit ideas about program implementation
- Identify benefits, limitations, and concerns about the concept
- Explore ways to measure engagement effectiveness

The workshop opened with an overview of the current CNE theater engagement strategy in order to provide non-Department of Defense personnel with an understanding of current naval activities in the European theater. Accompanying this briefing was another that outlined the characteristics and objectives of formative peacetime engagement.



Department and Agency Perspectives

Following the initial presentations, participants were asked briefly to describe the programs their organizations were conducting in the Black Sea region and to comment on the possibility of establishing partnerships in the region.



The Customs Service discussed its Border Security and Law Enforcement Assistance Program with the Republic of Georgia, a highly successful program that was again mentioned by Ambassador William B. Taylor during his keynote address.⁴ The four-fold focus of this program is to: first, strengthen the infrastructure (including the Coast Guard) on Georgia's Black Sea coast, especially the port of Poti; second, strengthen the Georgian Border Guard; third, enhance its export controls; and, finally, aid in legal and regulatory reform. This program already enjoys broad inter-agency participation including (in addition to the U.S. Customs Service): the Department of Defense, the U.S. Coast Guard, the Department of Energy, the Department of Commerce; the Defense Threat Reduction Agency; and others. It was

⁴ Ambassador Taylor leads the Department of State's office that coordinates all U.S. Government assistance to and cooperative activities with the New Independent States of the former Soviet Union.

noted that one essential key to the success of the program was the participation and partnership of host nation agencies.



Participants from the Office of the Secretary of Defense (OSD) and the Joint Staff noted that some current engagement activities, such as the SEA BREEZE exercise and OPERATION HANDCLASP, could be expanded to incorporate the partnership approach under consideration by CNE. They also noted that NATO has placed a liaison officer in Kiev who could be used to help coordinate allied engagement activities.



Participants from the U.S. Agency for International Development (USAID) brought with them a listing of AID initiatives in the region (see Appendix C). These include: health partnerships; child survival programs; maternal health programs; power sector restructuring initiatives; energy efficiency programs; election support programs; support to indigenous non-governmental organizations (NGOs) and municipal associations; and grants and loans to small and medium enterprises. In support of U.S. foreign policy, USAID objectives in the region include: economic restructuring, democracy building, enhancing the rule of law, and social transition. They posited that USAID's best contribution to formative peacetime engagement would be in helping to find ways that the U.S. military could support existing development programs. The Office of Transition Initiatives in AID was recommended as an excellent contact since it has an operational bent and deliberately focuses on the interagency process and NGO coordination.



The representative from the U.S. Information Agency (USIA) discussed an extremely successful program his agency has conducted in partnership with the Commander in Chief, U.S. Pacific Command (CINCPAC), for nearly a decade. The 3-week-long Southeast Asia Seminar (SEAS) brings together middle- to upper-level military and civilian personnel from Asian countries to learn about U.S. interests in Asia and to form networks of individuals throughout the region. Over the course of the program, participants learn about U.S. security concerns and foreign policy aims. They also get to discuss their own countries' concerns and form lasting bonds. The program has been so successful (having over 250 graduates) that CINCPAC has decided to expand the program.



One of the most promising short-term initiatives was presented by the representative of the Department of Energy. The department has been trying to establish regional oil spill response plans for the Black Sea and have involved a number of U.S. departments and agencies including the Department of Defense and the Coast Guard. The goals of the program include promoting regional cooperation, supporting energy security, and raising awareness of links between sustainable economic growth and the consequences of poor economic policies and practices. The department is also working to establish regional environmental databases and to set up transnational scientific cooperation.



The Environmental Protection Agency (EPA) is involved in similar environmental programs in the region. In fact, the EPA is the coordinating agency for NATO's Committee on the Challenges of Modern Society. Under the leadership of Turkey, the Committee has completed an inventory of activities taking place in the Black Sea. As a result, the lack of adequate coastal management has been underscored as a problem. The Navy will represent the United States on a short-term project addressing this issue. Under Georgia's leadership, the Committee will be sponsoring a conference on pipeline security. Pipeline security is one area where there is a natural partnership between the military, commercial, and public sectors. The EPA representative noted that programs such as the Northern European Initiative with its Great Lakes/Baltic Sea Partnership provide a good template for partnering agreements elsewhere.



The Coast Guard noted that it is active in a number of areas including those mentioned earlier. Its programs include: vessel traffic management schemes; port infrastructure development; environmental prevention and response activities; maritime law enforcement; and ship visits. The USCG cutter *Dallas* recently visited the Black Sea. In many ways, the Coast Guard is a better fit for exchanges with the maritime forces of smaller states. As the lead agency for U.S. participation in the International Maritime Organization, the Coast Guard is able to maintain good relations with almost every maritime country in the world.

Participant Observations



Ambassador William B. Taylor, Coordinator of United States Assistance to the New Independent States, delivered a lunchtime address during which he pledged his support for CNE's formative peacetime engagement concept. He underscored the importance of the Black Sea region for the United States but also noted that initiatives there had the potential of damaging relations with Russia. Involving Russia as a partner in as many initiatives as possible will help with bilateral relations as well as improve the chances of completing successful operations. The Ambassador discussed some of the challenges of interagency cooperation, but reiterated the importance of coordinated programs. Although he emphasized keeping the highest levels of individual departments informed of specific projects, he encouraged broad cooperation and coordination at the operational level. He emphasized that U.S. country ambassadors are the critical links for making the formative engagement process work.

Following the Ambassador's comments, participants spent the afternoon examining in more detail some of the case studies presented during the morning session. Out of these discussions came a number of observations that achieved consensus among participants.

- **The formative peacetime engagement process must be institutionalized.** Participants representing the development community stressed this point throughout the workshop. Development practitioners understand that change is often slow and

requires long-term commitment to see projects successfully through. Since military formative engagement participation will be both periodic and short-term, its impact will only achieve optimal effectiveness if the process is institutionalized. Commander in Chief, European Command, (EUCOM) is the logical organization to coordinate the program within the theater.



- **Engagement activities should be assigned priorities.** Foreign assistance and military resources are insufficient to address every need in every country. As a result, assistance triage needs to be conducted and projects with the greatest potential need to be assigned the highest priority for support. If the formative peacetime engagement concept is implemented and eventually expands to all regions of EUCOM's area of responsibility, assigning priorities will be even more important.



- **Cooperation, coordination and communication with partners and host nations are essential.** Although this observation appears to be a platitude as obvious as "you should love your mother," ineffective cooperation, coordination, and communication continue to haunt most operations. One need not delve too far into the interagency process to realize that the United States has significant internal problems in this area. That being the case, it should come as no surprise that such problems plague operations involving non-U.S. participants as well. In the past, the military's record of cooperation and coordination with NGOs has left much to be desired. In fairness, however, both sides must share the blame. OPERATION PROVIDE COMFORT in northern Iraq was a major turning point for improved cooperation and coordination. Participants noted that the United States would do well to adopt Canadian policies for the establishment and conduct of civil-military



minimal at best.

operations centers. They also noted that as important as good partner relationships are, relationships with host governments are even more important. One must keep in mind that the goal of formative peacetime engagement is the stabilization and long-term development of the country. Unless it regards the program as its own, the chances of a program succeeding are

- **Take into account the relationship between security and development.** As noted earlier, most analysts have come to realize that politics, economics, and security are so interconnected that it no longer makes sense to consider them independently. It was CNE's recognition of this fact that prompted them to explore the formative peacetime engagement concept. There will undoubtedly continue to be great debate over how deeply America's armed forces should be involved in development activity. During crisis interventions such



activity is inevitably and pejoratively labeled "mission creep."⁵ Such "mission cringe" cannot be permitted to impinge on the thinking of those involved in formative engagement or the foundation of the concept will be eroded.

- **Results not outputs should be pursued.** It is easy to count things. It is much more difficult to measure the impact that a program has on a country. Selecting appropriate measures of effectiveness (MOEs) is both difficult and critical. For example, one could easily count the number of small arms confiscated in a given community, but the impact of such activity is left undetermined. However, if there were no markets



course of action.

open or children playing in the parks prior to the program, selected MOEs might be the number of shops that reopen or the number of soccer games being held on a given day. If desired outputs can be determined before an operation, it becomes easier to design an effective

Conclusions and Recommendations

Harkening back to the criticisms leveled against U.S. foreign policy at the beginning of this report one would think that the formative peacetime engagement process would receive wide political and popular support. As opposed to seeking to shape another countries' internal politics, formative engagement is focused on improving conditions within that country. This approach accepts the notion that by changing the underlying conditions, a country's course can be altered for the better — but altered internally, from the ground up, without outside interference. Formative engagement aims at preventing complex emergencies, which releases the military from spending too much time on ad hoc humanitarian interventions and not enough on the traditional concern of great powers — relations with other powers. Although an important mission for the military, it will never be a primary mission. Diplomacy and aid will reassume their rightful spots as the principal instruments of foreign policy. Finally, as envisioned, formative engagement requires assistance triage to be undertaken so that scarce resources are applied where they can best serve U.S. national interests.

In to ensure that this occurs, participants made the following specific recommendations concerning the implementation of the process:

- **Establish close coordination with country teams.** As Ambassador Taylor noted during his keynote address, support of U.S. embassies in target countries is critical to making any formative engagement program work. The country teams are the crucial links to host governments. Unless host governments adopt and support development programs as their own, programs will either atrophy or die. The embassy should be the starting point of the process and not a way station. Another specific

⁵ For a more complete discussion of this phenomenon, see Bradd C. Hayes and Jeffrey I. Sands, *Doing Windows: Non-traditional Military Responses to Complex Emergencies* (Washington, DC: CCRP, 1998), pp. 237–43.

recommendation in this area was for CNE to expand its Naval Attaches conference to include formative engagement planning.

- **Tie together existing programs rather than create new ones.** As Appendices B and C demonstrate, there is no shortage of programs into which the military can tie. In fact, there is such a plethora of programs that the military will never be able to support them all. Careful planning with the embassies, NGOs, international organizations, and others will help sort out which programs should receive the highest priority for assistance. As the process becomes more robust, even greater good can be accomplished by partnering with friends and allies. Searching proactively for such opportunities should be one of the cornerstones of the process.
- **Test the concept using specific programs.** As the evidence mounts that the formative engagement process is worth pursuing, it should be tested using interagency programs already underway. Six specific programs were singled out:

- ***Oil spill clean-up exercises.*** Both the Department of Energy and the Environmental Protection Agency have on-going programs in the Black Sea that involve the Department of Defense. These programs show great promise for additional partnership development. They are for the most part non-controversial and directly benefit all littoral states. Some participants relished the thought of seeing Sixth Fleet, Mobil, and Greenpeace all participating in the same exercise — others wondered if there weren't limits to how far partnerships should extend.



- ***Black Sea Seminar.*** Using the CINCPAC Southeast Asia Seminar as a template, expand current military-to-military programs into a networking and educational experience for selected military and civilian personnel. Although SEAS has restricted its participants to those associated with security, expanding the potential participant base to include politicians, educators, business, and media personnel could prove beneficial.



- ***Expand the SEA BREEZE exercise to include cross-sector players.*** SEA BREEZE was mentioned time and again as an exercise that could be easily expanded to meet the objectives of formative engagement. The importance of inviting Russia to participate in any expanded format was also stressed.



- ***Support a Black Sea Commanders' Conference.*** Supporting this type of conference, either aboard ship or ashore, would enhance relations between navies, provide the United States continuing opportunities to educate others concerning their national interests and enhance camaraderie among navies. Every other year

the Chief of Naval Operations hosts an International Seapower Symposium at the Naval War College. The level of attendance is a clear indicator that senior naval officers are eager to discuss common problems and establish lasting ties.



- **Utilize Marshall Center facilities for regional workshops.** Since the focus of formative engagement is improving the condition of states by improving their citizens' lives, education must form a significant portion of the overall process. By utilizing existing facilities, especially those with exceptional credentials, attendance and effectiveness of educational programs will increase. Many of the activities recommended by participants involved programs that offered the concomitant benefits of education and the creation of informal networks of individuals holding interests in common. These workshops would serve both purposes as well.



- **Promote indigenous capacity building.** In cooperation with USAID, NGOs, and other international organizations, the military should look for ways to improve the capabilities of indigenous institutions, organizations, or individuals to help themselves. Often the military's "can do" attitude turns into a "must do" attitude. But doing for others what they must eventually learn how to do for themselves undermines the purpose behind formative engagement. The key is to foster self-sufficiency, which Sue Lautze defines as "the capacity of a community to produce, exchange and/or lay claim to the resources necessary to ensure both its survival through and resilience to life-threatening stresses."⁶ A good example of capacity building was when the Coast Guard recently visited Georgia and taught personnel in its Coast Guard how to maintain diesel engines on their coastal patrol boats.



- **Pursue greater military participation in regional workshops and conferences.** One participant noted that he was the only Department of Defense attendee at a regional conference (and he was on loan to the DoD!). His presence at the conference was so unusual that other participants asked why he was there. If formative engagement is going to be accepted by host nations, the military must be viewed as more than America's hammer raised and waiting to smash down on any country not bending to its wishes. By regularly attending regional workshops (and not only those connected with security issues), the military will assume a more accepted role as a peacetime engagement partner.

⁶ Sue Lautze, *Lives Versus Livelihood: How to Foster Self-Sufficiency and Productivity of Disaster Victims*, Occasional Paper One (Washington, DC: Office of Foreign Disaster Assistance, USAID, 1996), p. 10.

- **Create formal and informal networks to foster regional communication.** As promising activities begin to emerge and be implemented, one question that should be asked is, "how can I encourage those involved in this activity to stay in touch with one another?" One participant recommended creating a Black Sea region web site on which current activities are posted and contact information maintained. CINCPAC's SEAS program maintains a web site for its alumni so that they can continue to network even as they change positions within their organizations.

The Next Step



CNE next plans to hold an executive-level conference in London. Participants at this conference will be asked their opinions concerning the formative engagement concept as well as their willingness to support the process. The London conference will also expand the participant base. In addition to U.S. Government participants, individuals from the commercial sector, NGOs, and international organizations will be invited. Participants at the Washington, DC, workshop recommended that a broad cross-sector base be used for invitations to the follow-on conference. They suggested participants be drawn from security, financial, political, diplomatic, health, and academic arenas, as well as from the NGO, international organization, and commercial sectors.

APPENDIX A PARTICIPANTS

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APPENDIX B



OVERVIEW OF U.S. GOVERNMENT PROGRAMS INVOLVING BLACK SEA LITTORAL STATES

Source: Department of State
Congressional Presentation for Foreign Operations, Fiscal Year 2000

Bulgaria

(\$ in thousands)



National Interests: Facilitating Bulgaria's inclusion in a broad, inclusive European security structure will contribute to stability in Southeast Europe and reduce threats to the security and well-being of the U.S. and its allies.

Regional stability is further enhanced by building a self-sustaining market economy in Bulgaria and assisting in the consolidation of democratic reforms. In addition, a prosperous Bulgaria is better able to purchase U.S. goods and services. Supporting Bulgaria's efforts to combat organized crime reduces the threat these organizations pose to the property and well being of American citizens. Finally, U.S. assistance programs address the environmental threats and damage that are the legacy of Communist-era policies and practices.

Strategic Goals and Supporting Programs for FY 2000:

Regional Stability: Foreign Military Financing (FMF) and International Military Education and Training (IMET) funds support Bulgaria's reform programs, particularly defense reform, which are designed to consolidate Bulgaria's democracy and transition to a market-oriented economy. This furthers broader US strategic goal of integrating Bulgaria into Trans-Atlantic institutions in order to enhance regional stability and, by extension, U.S. national security. Bulgaria will continue to be eligible in FY 2000 to receive grant Excess Defense Articles (EDA) under Section 516 of the Foreign Assistance Act and where appropriate the transfer of EDA will assist Bulgaria in meeting defense requirements and furthering NATO interoperability.

\$6,530

Weapons of Mass Destruction: With funds from the Nonproliferation, Anti-Terrorism, Demining (NADR) account the U.S. will continue to assist in the development of an effective Export Control system and enforcement capability.

\$535

Expand U.S. Exports: By supporting the development of a market economy, the Support for East European Democracy (SEED) program increases the level of comfort for Bulgarians dealing with American companies and, indirectly, makes Bulgarian needs known to American suppliers. This will position American companies to take advantage of current and anticipated export opportunities.

Economic Development: Broad-based growth is the precondition for long-term Bulgarian social and political stability that contributes to U.S. national security by fostering regional stability. SEED and Peace Corps programs support this goal by strengthening the public and private institutions (e.g. the Central Bank, small and medium size enterprises) critical to a sound and efficient market-oriented economy.

\$19,181

International Crime: The SEED program helps enhance the effectiveness of Bulgaria's law enforcement services and judiciary by providing advisors, training, and limited equipment assistance. The program focuses on improving Bulgaria's legislative framework for combating

international crime and enhancing its transnational crime-combating capabilities.

\$409

Democracy: A strong democracy in Bulgaria is a critical pre-condition for achieving stability in the country and the region, and for ensuring the eventual integration of Bulgaria into Euro-Atlantic structures. SEED funds are used to strengthen civil society, improve in the rule of law, increase government responsiveness to its citizens, assure tolerance and respect human rights, and strengthen the legal framework for a free and independent media. IMET funds support civil/an control of a democratic military.

\$7,876

Environment: Through SEED, Peace Corps and IMET, the U.S. encourages environmental clean-up and supports environmental education in such vital areas as lead-free gas, solid waste disposal, "greener" industries, nuclear safety, and environmentally sound military operations/practices.

\$156

Performance Evaluation:

- **More competitive and market-responsive private financial sector.** U.S. assistance to Bulgaria's banking system has focused on bank privatization, training commercial bankers, and improved supervision and regulation. All Bulgarian banks have been stabilized since the 1997 economic crisis. In November 1998, Bulgaria's privatization program sold the Bulgarian Post Bank to a consortium led by the U.S.-owned American International Group (AIG). With U.S. help, Bulgaria has also developed an internal bank rating system in order to appraise bank risks more accurately.
- **More accountable local government.** U.S. assistance played a central role in creating a network of municipal associations, the National Association of Municipalities in the Republic of Bulgaria, which now represents 86% of all municipal governments. U.S. assistance has also funded the non-profit Foundation for Local Government Reform (FLRG), which has been instrumental in training local government to improve services.
- **Improvements in intellectual property enforcement.** Bulgaria was moved from the USTR's "Priority Watch List" to the "Watch List" because of the significant progress made by the government in reducing the reduction and export of pirated optical media. This included implementing a new CD production facility licensing regime and a crackdown on pirates that resulted in the shut down of illegal CD production facilities and subsequent vigorous enforcement of International Property Rights (IPR) laws.
- **Increase U.S. exports to, and investment in, Bulgaria.** In calendar year 1998, the U.S. was the largest foreign investor in Bulgaria. U.S. companies invested \$47 million in 1998 (January-September), an increase of \$25 million from 1997. U.S. exports to Bulgaria in 1998 (January-October) totaled \$102 million compared to \$91 million for the same period in 1997.

Progress on reform of the defense establishment and greater participation in regional security alliances. Bulgaria continues to move in the direction of creating a better-managed,

Western-oriented, streamlined, professional military force that is under civilian control. With prior-year training and equipment; airfield landing and navigational aids; ground surveillance night vision devices; global positioning system equipment, and an Air Sovereignty Operations Center.

Key Indicators for FY 2000 Performance:

- Adoption of a national security concept and military doctrine that emphasize Bulgarian contributions to regional stability through cooperative partnership with the nations of Southeast Europe and integration into Western institutions.
- Increased transfer of state-owned assets to the private sector.
- Increased numbers of viable small and medium-sized enterprises.
- Passage and effective implementation of anti-crime, anti-corruption and judicial reform legislation.

BULGARIA
FUNCTION 150 RESOURCES
(\$ in thousands)

Appropriations Accounts by Strategic Goal	Actual FY 1998	Estimate FY 1999	Request FY 2000
Regional Stability	4,702	6,502	6,530
FMF-G	4,200	6,000	6,000
IMET	502	502	530
Weapons of Mass Destruction	104	225	535
IMET	61	61	80
NADR-Export Control	43	164	455
Economic Development	22,700	15,700	19,181
SEED	22,700	15,700	19,181
International Crime			409
SEED			409
Democracy	10,171	12,330	7,876
IMET	330	330	330
SEED	9,841	12,000	7,546
Humanitarian Assistance	5,685		
Title II	5,685		
Environment	182	57	156
IMET	57	57	60
SEED	125		96
Diplomatic Activities	1,014	500	768
SEED	1,014	500	768
Total	44,558	35,314	35,455

Appropriations Accounts	Actual FY 1998	Estimate FY 1999	Request FY 2000
FMF	4,200	6,000	6,000
IMET	950	950	1,000
NADR	43	164	455
SEED	33,680	28,200	28,000
Title II	5,685	-	-
Total	44,558	35,314	35,455
Other Accounts			
D&CP	2,728	2,904	3,649
ECE	1,114	1,191	1,234
IIP	618	593	-
Peace Corps	1,536	2,032	2,112
Total	5,996	6,720	6,995
BULGARIA			
FUNCTION 150 RESOURCES GRAND TOTAL	50,554	42,034	42,450

Georgia
(\$ in thousands)



National Interests: U.S. national security interests are at stake in the Georgia where regional and local instability threatens Georgia's evolution toward a democratic and free-market state. A stable, independent Georgia will reduce chances of military conflict in a region bordering Russia, Turkey, and Iran, proliferation of weapons of mass destruction (WMD), and the spread of international crime. Increased opportunities for exports will enhance U.S. economic prosperity. Other U.S. interests in Georgia are promotion of democracy, and humanitarian assistance.

Strategic Goals and Supporting Programs for FY 2000:

Regional Stability: Preventing renewed conflicts in Georgia, which could threaten the country's territorial integrity and the stability of the region serves U.S. national security and economic interests. Continuing U.S. support for the Abkhazia peace negotiations, FSA assistance to help Georgia take control of its borders, and intensification of Georgian cooperation with Western economic and security institutions through Partnership for Peace exercises and International Military and Education and Training (IMET) programs all enhance regional stability. Georgia will be eligible in FY 2000 to receive Excess Defense Articles (EDA) on a grant basis under Section 516 of the Foreign Assistance Act. Transfer of EDA will assist Georgia in meeting defense requirements and furthering NATO interoperability.

\$36,100

Weapons of Mass Destruction: Georgia's location at the crossroads of Europe's and Asia's commercial routes, and its poorly trained, equipped and supported border control organizations increase the threat of WMD materials transiting Georgia. FSA assistance and IMET programs concentrating on border and customs agencies help train and equip officials responsible for preventing the proliferation of WMD.

\$2,065

Open Markets: Georgia is located astride the principal export route for energy and natural resources from the Caspian area and Central Asia and a liberal economic environment in Georgia is critical to allowing the free flow of trade to and from these regions. Freedom Support Act (FSA) assistance, including Treasury technical advisors, helps Georgia's policymakers reform its trade and investment regimes and fosters integration into world economic organizations.

\$1,000

Economic Development: Georgia's full transformation into a market economy will offer opportunities for U.S. trade and investment. FSA assistance promotes the development of strong macroeconomic and structural policies, such as power sector restructuring and providing credit to small businesses, to help Georgia's economic recovery.

\$25,000

International Crime: Improving law and order and fighting corruption in Georgia contributes to the protection of Americans and promotes economic prosperity. FSA support strengthens the Georgian law enforcement capability and justice system. \$3,500

Democracy: Georgia has been a leader in democratic reform in the New Independent States. FSA assistance supports the consolidation of democratic institutions and the institutionalization of respect for human rights in Georgia. Increased support for partnerships and exchanges is also critical to improving Georgian understanding and attitudes toward democratic and free market practices. \$15,000

Humanitarian Assistance: The global financial crisis and the Abkhazia conflict have left more people vulnerable, requiring more FSA help to reduce human suffering and improve sustainability of social benefits and services in Georgia. \$10,750

Health: In the aftermath of the dissolution of the Soviet Union, the health care network in Georgia virtually collapsed. FSA funding helps Georgia improve the sustainability of its health services, including targeting infectious diseases. \$5,000

Performance Evaluation:

- **Establishment of formal security dialogue.** In 1998, the U.S. Department of State hosted the second bilateral security dialogue and the Department of Defense hosted the first Bilateral Defense Working Group.
- **Progress toward assuming responsibility, for controlling its borders and territorial waters.** Georgia assumed control over its Black Sea coastal border (from Russian border forces) in July 1998 and should have control over its land borders by the end of 1999. USG programs have been key to this progress.
- **Completion of process by which Georgia joins the World Trade Organization (WTO).** Two working party sessions took place at WTO headquarters and Georgia is working, with the help of U.S. technical advisers, to accession in 1999.
- **Continuation of bilateral negotiations between Georgian officials and representatives of the Abkhaz separatist regime.** Bilateral negotiations have intensified. As a Friend of the Secretary-General, the U.S. plays a role in the UN-led process, which has gained greater visibility and credibility, in the negotiations.

Key Indicators for FY 2000 Performance:

- Establishment of joint Abkhaz-Georgian administrative structures and return of IDPs to Gali region.
- Establishment of a border control regime.
- Increased level of U.S. investments in and exports to Georgia.
- Free and fair parliamentary and presidential elections.
- Substantial decrease in percentage of people living at or below the poverty line.

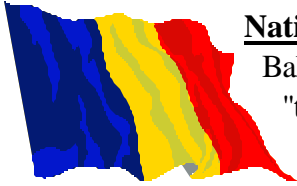
GEORGIA
FUNCTION 150 RESOURCES (\$ in thousands)

Appropriations Accounts	Actual FY 1998	Estimate FY1999	Request Fy 2000
Regional Stability	27,299	27,342	36,100
CIPA	4,953	8,300	10,500
FMF-G	5,350	1,650	3,200
FSA	16,580	17,000	22,000
IMET	416	392	400
Weapons of Mass Destruction	1,090	870	2,065
ESF	-	-	-
FSA	1,050	750	2,000
NADR-Export Control	40	120	65
Open Markets	1,500	1,000	1,000
FSA	1,500	1,000	1,000
U.S. Exports	80	360	-
FSA	80	360	-
Economic Development	31,062	31,065	25,000
FSA	31,062	31,065	25,000
International Crime	1,600	2,400	3,500
FSA	1,600	2,400	3,500
Democracy	18,068	16,075	15,000
FSA	18,068	16,075	15,000
Humanitarian Assistance	24,049	10,710	10,750
FSA	24,010	10,210	10,000
NADR-Demining	39	500	750
Environment	-	200	-
FSA	-	200	-
Health	3,550	5,300	5,000
FSA	3,550	5,300	5,000
Total	108,298	95,322	98,415

Appropriations Accounts	Actual FY 1998	Estimate FY 1999	Request FY 2000
CIPA	4,953	8,300	10,500
ESF	-	-	-
FMF	5,350	1,650	3,200
FSA	97,500	84,360	83,500
IMET	416	392	400
NADR	79	620	815
Total	108,298	95,322	98,415
Other Accounts			
D&CP	1,842	1,961	2,045
ECE	990	889	930
Total	2,832	2,850	2,975
GEORGIA FUNCTION 150 RESOURCES GRAND TOTAL	111,130	98,172	101,390

Romania

(\$ in thousands)



National Interests: Romania lies at the crossroads of Central Europe, the Balkans, and the former Soviet Union. One noted observer recently called it "the fulcrum of Europe." As the largest country in Southeastern Europe, a prosperous and democratic Romania can make a significant contribution to security in a troubled region that has commanded major U.S. attention in a recent years. Presidents Bill Clinton and Emil Constantinescu declared a strategic partnership between the United States and Romania in July 1997.

Strategic Goals and Supporting Programs for FY 2000:

Regional Stability: Romania was the first country to join the Partnership for Peace in 1994 and has contributed significantly to International Force (IFOR) and the Stability Force (SFOR) missions in Bosnia. Romania has also participated in the "Friends of Albania" group and agreed, despite strong historical ties to the Serbs, to possible NATO use of Romanian airspace had NATO action proved necessary in Kosovo in fall 1998. Full membership in NATO remains Romania's strategic goal. International Military Education and Training (IMET) and Foreign Military Financing (FMF) funds contribute to helping the Romanian military increase its interoperability with NATO and deepen the institutional foundations for democratic civilian control over the armed forces. Romania will continue to be eligible in FY 2000 to receive grant Excess Defense Articles (EDA) under Section 516 of the Foreign Assistance Act and where appropriate the transfer of EDA will assist Romania in meeting defense requirements and furthering NATO interoperability.

\$8,160

Weapons of Mass Destruction: With funds from the Nonproliferation, Anti-Terrorism, Demining (NADR) account the U.S. will continue to assist in the development of an effective Export Control system and enforcement capability.

\$458

Economic Development: Romania's economic transition is at a critical stage. Agreements with the World Bank, the International Monetary Fund (IMF) and other financial institutions are necessary for the GOR to avoid balance of payments problems. The government of Prime Minister Vasile is beginning to move forward on privatization and the closure of inefficient state-owned enterprises while presenting a tight budget. U.S. assistance through the Support for Eastern European Democracy (SEED) program provides crucial help to Romania in its reform efforts and in laying the foundations for sustainable economic growth.

\$22,898

International Crime: A center aimed at combating international organized crime is slated to open in Bucharest in 1999 with SEED assistance. A Department of Justice resident legal advisor is also in place at Embassy Bucharest. Romania's location at the crossroads of Southeastern Europe makes it a particularly suitable candidate for assistance with border controls.

\$432

Democracy: SEED efforts help support the development of democratic institutions, including local government, public administration, NGOs, and the courts. Exchange programs promote

democratic thinking and expose current and future leaders to American democracy. The next national elections (expected in 2000) will be a significant milestone in the consolidation of democracy. \$3,326

Environment: The SEED program is seeking to improve energy efficiency, protect old-growth forests, and preserve the Danube Delta. \$1,522

Population: SEED funds are deployed to assist Romania in family planning and women's health. \$1,890

Performance Evaluation:

- **Progress on Macroeconomic Reform.** Progress in privatization, the closure of inefficient state enterprises, and keeping the budget deficit down are crucial factors for Romania's economic development.
- **Agreements with the International Financial Institutions (IFIs).** Recession since 1997 and lagging reforms have created balance of payments problems for Romania. Agreements with the IMF and World Bank are vital if Romania is to avoid possible default and get on the road to broad-based growth.
- **Progress on NATO Interoperability.** Bilateral military cooperation with the U.S. should complement Romania's engagement with NATO to advance NATO interoperability and advance defense reform.
- **Support for Peacekeeping.** A measure of Romania's goal of being a stability exporter is its continued strong support for SFOR in Bosnia and international peace efforts in Kosovo.
- **SECI Center on Crime.** Non-traditional threats such as organized crime continue to rise in prominence in bilateral relations. The opening of a Southeast European Cooperation Initiative (SECI) center on cross-border crime should reaffirm Romania's commitment to cooperation with the U.S. in this important area.

Key Indicators for FY 2000 Performance:

- Progress on Macroeconomic reform including privatization and closure of inefficient state-owned enterprises;
- Agreements with and implementation of IMF and World Bank programs;
- Progress on NATO Interoperability goals and Defense Reform;
- Continued Support for OSCE Kosovo Verification Mission and SFOR;
- Opening of SECI Center on Cross-Border Organized Crime.

ROMANIA
FUNCTION 150 RESOURCES
(\$ in thousands)

Appropriations Accounts by Strategic Goal	Actual FY 1998	Estimate FY 1999	Request FY 2000
Regional Stability	14,447	4,513	8,160
FMF-G	13,900	4,000	7,500
I MET	547	513	660
Weapons of Mass Destruction	47	143	458
NADR-Export Control	47	143	458
Economic Development	28,589	20,825	22,898
SEED	28,589	20,825	22,898
International Crime	-	-	432
SEED	-	-	432
Democracy	4,027	7,913	3,326
IMET	547	513	540
SEED	3,480	7,400	2,786
Humanitarian Assistance	-	3,350	-
SEED	-	3,350	-
Environment	1,900	2,000	1,522
SEED	1,900	2,000	1,522
Population	2,360	1,625	1,890
SEED	2,360	1,625	1,890
Diplomatic Activities	791	800	472
SEED	791	800	472
Total	52,161	41,168	39,158

Appropriations Accounts	Actual FY 1998	Estimate FY 1999	Request FY 2000
FMF	13,900	4,000	7,500
IMET	1,094	1,025	1,200
NADR	47	143	458
SEED	37,120	36,000	30,000
Total	52,161	41,168	39,158
Other Accounts			
D&CP	3,807	3,838	5,204
ECE	1,820	1,944	1,990
IIP	1,119	1,154	-
Peace Corps	1,510	1,772	1,875
Total	8,056	6,706	9,070
ROMANIA			
FUNCTION 150 RESOURCES GRAND TOTAL	60,217	49,874	48,228

Russia
(\$ in thousands)

National Interests: The U.S. has an overriding national security interest in furthering Russia's development of a democratic civil society ruled by law with respect for human rights and a growth oriented market economy that are fully integrated into the mainstream of world political and economic relations. The benefits to the United States of a non-threatening and reforming Russia are direct and tangible in terms of maintaining a reduced level of defense spending and opening up a potentially huge export market and alternative source for our energy needs. Russia's fledgling steps toward democracy could be reversed if its people lose hope in economic revival and a more economically secure future. We also have strong interests in preventing proliferation of weapons of mass destruction, protecting Americans from the threat of international crime originating in Russia, and cleaning up the environmental degradation from the Soviet period.

Strategic Goals and Supporting Programs For FY 2000:

Regional Stability: Russia plays a significant role in Europe, Asia, and the Middle East as well as in the UN Security Council. Continuing Warsaw Initiative funding for Partnership for Peace exercises and International Military Education and Training programs will help policy leaders in Russia understand that the admission of new members to NATO does not threaten Russian Security. Russia will be eligible in FY 2000 to receive Excess Defense Articles (EDA) on a grant basis under Section 516 of the Foreign Assistance Act. Transfer of EDA will assist Russia in meeting defense requirement and furthering NATO interoperability.

\$5,400

Weapons of Mass Destruction: Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) funds help Russia contain its nuclear, biological and chemical weapons and related technology. Scientific collaboration programs with FSA keep experts at home and employed in peaceful pursuits, while the Export Control program provides equipment and training and helps strengthen institutions charged with containment of potential weapons components within Russia.

\$121,261

Open Markets: Foreign investors must have confidence in the transparency of Russia's economic policies before they risk the capital needed to tap into Russia's vast resources. Full-time, professional advisers provide expertise and advice to Russian policymakers as they develop regulatory legislation.

\$5,000

Expand U.S. Exports: For nearly a century, most of Russia's markets were closed to U.S. products and services. The FSA funds programs that provide U.S. businesses with information about markets and investment opportunities across the broad expanse of the Russian Federation. In a number of Russian regions, American Business Centers provide U.S. business people with logistical support and help them identify purchasers and joint venture partners.

\$6,000

Global Economic Growth: Russia must build a positive investment climate to attract capital flows needed to bring about long-term economic growth. FSA programs help provide training and expertise to develop a coherent tax code, improve budget policy, and tighten regulation of

the banking sector.

\$23,000

Economic Development: Success of democratic and economic reform in Russia depends on the individual Russian's belief that their day-to-day lives will improve. The engine of future growth in Russia is small business. The lion's share of FSA for this program in FY 2000 will capitalize revolving Enterprise funds and credit programs for small businesses, with particular emphasis on the regions outside Moscow. Such funds are particularly important in helping entrepreneurs in the financial crisis. Other programs will help build the legislative framework to create a positive environment for investment at the regional level, and provide training to thousands of entrepreneurs.

\$49,000

International Crime: Russia's authorities now recognize the threat to their economy presented by international crime, and they have turned to the U.S. and other Western partners for assistance in addressing these issues. The complexity of white-collar crimes, particularly corruption, money-laundering, fraud and others, is beyond the capability and resources of Russian law enforcement. The USG provides training and expertise to Russian law enforcement authorities on these issues.

\$8,600

Illegal Drugs: Russia's role as a transit country for illegal drugs has increased since the breakup of the Soviet Union. Drug use, particularly of opiates, is on the rise. Russian law enforcement is poorly prepared to address the complexity and international nature of issues relating to drug trafficking and narcobusiness. Targeted USG interagency programs, coordinated by INL, support training of Russian law enforcement authorities in modern methods to combat these crimes.

\$400

Democracy: Success for Russian reforms in general, and the direct benefits to the U.S. they present, depend on the success of Russia's democratic institutions. Despite political and economic crises, transition of authority has remained within the bounds of Russia's constitution, a trend FSA programs seek to support. Long-term change will be generational and must come from the grass roots. FSA funding for exchange programs and support for development of Russia's fledgling NGO sector and independent media address our long-term goal to foster democratic institutions and respect for international human rights standards.

\$58,000

Humanitarian Assistance: The stability of Russia's government — which is in our direct national interest — depends in part on its ability to address the populations' most urgent needs. One consequence of the financial crisis is that Russia no longer has the capacity to address emergencies as they arise. In addition to addressing genuine humanitarian needs, U.S. assistance does much to engender good relations between U.S. and Russian NGOs.

\$6,000

Environment: Russia's environment bears deep scars from the Soviet era. Now some areas have the potential to damage the environment well beyond Russia's borders. With the governments of countries in the region, FSA funds support programs to safely contain nuclear waste in Russia's northwest. Other programs contribute to the international effort aimed at phasing out ozone-depleting CFCs.

\$9,000

Population: Regional conflicts, particularly in the North Caucasus and Central Asia, have

displaced thousands and created refugee flows. The USG contributes to international efforts coordinated by the UNHCR and other international organizations. \$1,200

Health: Russia's financial crisis has further damaged the post-Soviet social safety net, and most Russians no longer have access to adequate health care. Now Russia's health concerns have the potential to have impact on the world at large. In addition to funding partnerships with U.S. hospitals, FSA programs will help address the spread of multi-drug-resistant strains of tuberculosis. \$6,800

Performance Evaluation:

- **Achieve and implement bilateral agreements on arms control and nonproliferation arrangements.** Consensus for passing START II nearly reached in Duma, passage slowed by political response to air strikes on Iraq. On non-proliferation, Russian authorities have taken action against entities discovered to be contravening policy, but GOR needs to press for tight compliance.
- **Provision of civilian employment alternatives to a majority of scientists with critical weapons expertise.** USG programs engaged approximately 65 percent of weapons scientists and technicians in peaceful research and development projects. Science Centers significantly expanded the number of projects involving former Russian biological weapons scientists and energized a concerted U.S. interagency effort to increase activities in the biotechnical arena. The Science Centers expanded business training programs for these scientists, and the Civilian Research and Development Foundation initiated several programs to promote collaboration between U.S. companies and weapons scientists with commercially promising research results.
- **Passage and implementation of commercial laws conducive to business and investment.** Part one of new tax code passed in July 1998. Production Sharing Agreement (PSA) implementing legislation passed in December 1998, other PSA legislation still in parliament. Legislation limiting foreign investment in and management of Russian tourism entities vetoed by President Yeltsin. Amendments to Production Sharing Agreement legislation, opposed by U.S. industry, withdrawn from consideration.
- **Progress toward World Trade Organization accession.** Official commitment to WTO accession remains strong, despite intensification of financial crisis. Two working party sessions at WTO headquarters held in 1998. Goods offer tabled, although proposed tariff bindings are higher than current, actual tariffs. Agricultural subsidies offer tabled, although 1988–91 base periods used permit higher subsidies than more recent periods.
- **Use implementing regulations to lessen negative effects of religion law.** President Yeltsin agreed to use the implementation phase of the 1997 Law on Religion to mitigate some of its negative effects on religious liberty in Russia. Central government officials have done so, but need to take concrete steps to bring local officials in line with international standards.

Key Indicators for FY 2000 Performance:

- Implementation of export control regimes resulting in Russian curbs on WMD technology transfers to Iran/Iraq.
- Recognize international standards of religious freedom.
- Decreased corruption-related complaints by U.S. business.
- Level of U.S. exports to Russia.
- Foreign direct investment to Russian regions.
- Greater portion of Russian scientists and technicians with weapons expertise securely employed.
- Closure of the most dangerous Russian nuclear power plants

RUSSIA
FUNCTION 150 RESOURCES
(\$ in thousands)

Appropriations Accounts by Strategic Goal	Actual FY 1998	Estimate FY 1999	Request FY 2000
Regional Stability	2,982	2,420	5,400
FMF-G	2,250	1,500	1,500
FSA	-	-	3,000
IMET	732	920	900
Weapons of Mass Destruction	9,088	26,497	121,281
ESF	-	-	-
FSA	7,400	25,000	119,000
NADR-Export Control	1,688	1,497	2,261
Open Markets	12,650	6,400	5,000
FSA	12,650	6,400	5,000
U.S. Exports	12,684	5,750	6,000
FSA	12,684	5,750	6,000
Global Economic Growth	1,230	21,600	23,000
FSA	1,230	21,600	23,000
Economic Development	26,600	24,370	49,000
FSA	25,600	24,370	49,000
International Crime	9,270	7,735	8,600
FSA	9,270	7,735	8,600
Illegal Drugs	430	365	400
FSA	430	365	400
Democracy	48,338	56,680	58,000
FSA	48,338	56,680	58,000
Humanitarian Assistance	2,920	5,580	6,000
FSA	2,920	5,580	6,000
Environment	5,800	11,450	9,000
FSA	5,800	11,450	9,000
Population	1,020	1,115	1,200
FSA	1,020	1,115	1,200
Health	5,772	6,315	6,800
FSA	5,772	6,315	6,800
Diplomatic Activities	70	-	-
FSA	70	-	-
Total	137,853	176,277	299,661

Appropriations Accounts	Actual FY 1998	Estimate FY 1999	Request FY 2000
FMF	2,250	1,500	1,500
FSA	133,183	172,360	295,000
IMET	732	920	900
NADR	1,688	1,497	2,261
Total	137,853	176,277	299,661
Other Accounts			
D&CP	19,908	21,164	22,127
ECE	10,199	9,159	9,580
Peace Corps	3,096	3,474	3,998
Total	33,203	33,797	35,705
RUSSIA			
FUNCTION 150 RESOURCES GRAND TOTAL	171,056	210,074	335,366

Turkey

(\$ in thousands)



National Interests: Turkey is vitally important to U.S. national security.

Turkey is a key NATO ally located at the strategic nexus of Europe, the Middle East; the Caucasus and the Caspian, and an active participant in regional stabilization initiatives. Turkey borders three countries — Iran, Iraq and Syria — which pose military, terrorist, Weapons of Mass Destruction (WMD) and strategic economic threats to the United States. Turkey provides crucial cooperation with the U.S. on Iraq, including hosting Operation Northern Watch (ONW). The U.S. national interest in Democracy is reflected in programs with the Turkish military that promote improved civil-military relations. Turkish efforts to combat narco-trafficking are also of serious national security concern to the U.S. A highly effective USAID-funded population control program reflects another important U.S. interest in the region.

Strategic Goals and Supporting Programs for FY 2000:

Regional Stability: International Military Education and Training (IMET) programs provide Turkish military personnel with the training needed to improve interoperability with U.S. and NATO forces and help support Turkey's participation in international peacekeeping operations. Turkey will continue to be eligible in FY 2000 to receive grant Excess Defense Articles (EDA) under Section 516 of the Foreign Assistance Act and where appropriate the transfer of EDA will assist Turkey in meeting defense requirements and furthering NATO interoperability.

\$1,200

Illegal Drugs: U.S. counternarcotics assistance will provide training and equipment to strengthen Turkey's investigation and interdiction efforts, as well as promote demand reduction and public awareness. An experimental licit poppy-breeding project helps enhance the economic viability of the industry in order to prevent diversion of crops and farmers into the illicit market, and to support the market for pharmaceutical raw products.

\$500

Democracy: The issues of military justice, to include internationally recognized human rights, effective defense resources management, and improved civil-military relations are specifically addressed under IMET programs.

\$306

Performance Evaluation:

- **Government of Turkey support for U.S. regional initiatives.** Turkey has supported U.S. regional initiatives by consistently renewing authorization of ONW, strongly supporting the Middle East Peace Process and building solid, multifaceted ties with Israel. Turkey played the leading role in the establishment of the Multinational Peace Force-Southeastern Europe, and has participated constructively in the Southeast Europe Cooperation Initiative and the Black Sea Economic Cooperation Council. The USG has been able to promote and obtain Turkish participation in the Multinational Peacekeeping Force for Southeast Europe, the Southeast Europe Cooperation Initiative, and the Black Sea Economic Cooperation Council.

- **Increased operational readiness of the Turkish military.** Turkey has embarked on a major effort to upgrade and modernize its armed forces to enable it to meet NATO obligations and to counter the increasing security threat posed by terrorism and WMD being pursued by neighboring countries.
- **Absence/limitation of flare-ups in the Aegean.** U.S. diplomatic intervention proved decisive in averting war between NATO allies Greece and Turkey on two occasions since 1994. While provocative actions by the armed forces of both countries took place in FY98, there was a marked decrease of such incidents compared with FY97.
- **Statistics on narcotics seizures.** During 1998 Turkish law enforcement agencies seized over three tons of heroin and five tons of hashish. Drug seizures were up 50% from 1997. There were over 5,000 drug-related arrests. There were a number of successful bilateral investigations in 1998, including the seizure of 550 kilograms of cocaine.

Key Indicators for FY 2000 Performance:

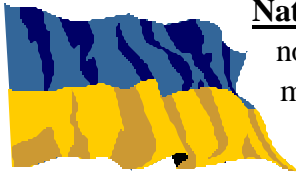
- Reduced military involvement in politics;
- Normalization of Greek-Turkish relations and progress toward a Cyprus settlement;
- Agreement among the Turkish and Greek governments to technical changes for the prevention of conflicting exercises in the Aegean and the interception of NATO military aircraft;
- Number of narcotics seizures in Turkey;
- Reduced total birth rate;
- Reduced complaints/incidents of human rights violations.

TURKEY
FUNCTION 150 RESOURCES
(\$ in thousands)

Appropriations Accounts by Strategic Goal	Actual FY 1998	Estimate FY 1999	Request FY 2000
Regional Stability	1,200	1,200	1,200
IMET	1,200	1,200	1,200
Illegal Drugs	500	500	500
INC	500	500	500
Democracy	4,305	2,300	300
DA	4,000	2,000	-
IMET	305	300	300
Total	6,005	4,000	2,000

Appropriations Accounts by Strategic Goal	Actual FY 1998	Estimate FY 1999	Request FY 2000
DA	4,000	2,000	
IMET	1,505	1,500	1,500
INC	500	500	500
Total	6,005	4,000	2,000
Other Accounts			
D&CP	8,575	9,128	14,141
ECE	2,450	2,659	2,705
IIP	2,803	3,572	-
Total	13,828	15,359	16,846
TURKEY			
FUNCTION 150 RESOURCES GRAND TOTAL	19,833	19,359	18,846

Ukraine
(\$ in thousands)



National Interests: The U.S. seeks an independent, democratic, and non-nuclear Ukraine with a market economy and a civilian controlled military that is integrated into the broader Euro-Atlantic community.

Ukrainian stability is important to U.S. national security. A successful Ukrainian transition would contribute to regional stability and prosperity and promote a secure and undivided Europe. Among the key benefits to the U.S. of such a transition would be the elimination of Weapons of Mass Destruction (WMD) infrastructure, the reduction of international organized crime, and a permanent solution to the ongoing risk of nuclear contamination at Chernobyl. Ukraine is also a potentially important market for U.S. goods and services.

Strategic Goals and Supporting Programs for FY 2000:

Regional Stability: Ukraine is strategically located between Russia and Central Europe. Continuing Warsaw Initiative and International Military Education and Training (IMET) programs promote the development of a western-oriented military capable of participating alongside NATO forces in peacekeeping operations and Partnership for Peace (PFP) exercises. These relations tie Ukrainian interests and outlook to the West. Ukraine will be eligible in FY 2000 to receive Excess Defense Articles (EDA) on a grant basis under Section 516 of the Foreign Assistance Act. Transfer of EDA will assist Ukraine in meeting defense requirements and furthering NATO interoperability. \$4,650

Weapons of Mass Destruction: Freedom Support Act (FSA) assistance supports the peaceful employment of Ukrainians who once specialized in research and development of WMD and their delivery systems through projects supported by the Science and Technology Center in Ukraine (STCU) and the U.S. Civilian Research and Development Foundation. Export control assistance under FSA and NADR helps to maintain and expand a common understanding and approach with Ukraine on preventing the proliferation of nuclear, chemical, and biological weapons technologies, as well as ballistic missile technologies.

\$30,557

Open Markets: The President's Partnership for Freedom initiative promotes the adoption of liberal trade and investment regimes consistent with WTO and OECD norms (and eventual accession into the former), as well as the swift resolution of individual trade and investment disputes in a manner consistent with such norms.

\$4,000

Expand U.S. Exports: The USG utilizes trade-facilitating mechanisms such as Department of Commerce/Foreign Commercial Service trade promotion programs, US EXIM credits, OPIC insurance and project finance mechanisms, TDA feasibility study programs, and targeted use of Partnership for Freedom and other assistance to expand U.S. exports to Ukraine.

\$2,000

Economic Development: The President's Partnership for Freedom (PFF) initiative and support for IFI programs encourage the adoption of policies oriented to private sector growth

(especially small and medium size businesses), macroeconomic stabilization, structural reform, energy reform, and the removal of legal and other impediments to increased trade and investment. The program is designed to build grass roots support for economic reform and ultimately alleviate concern and resistance in the Rada and parts of the government.

\$51,000

International Crime: Corruption and organized crime are substantial and increasing threats to democratic stability and economic development in Ukraine. The activities of Ukrainian criminal organizations also threaten U.S. international interests, such as eliminating trafficking in narcotics and women and children. Assistance from a number of U.S. agencies is directed through an established law enforcement liaison with the intention of improving the legal basis for law enforcement, strengthening law enforcement institutions and contributing to their reform.

\$5,000

Democracy: Emerging from 70 years of Soviet totalitarianism, Ukraine has made progress in creating a democratic political system. FSA funded assistance programs support the continuing development of democratic institutions, the rule of law, freedom of religion and movement, and the creation of a civil society in Ukraine. Exchanges and partnerships play an important role.

\$44,000

Humanitarian Assistance: U.S. and multilateral assistance resources are available to address humanitarian crises in Ukraine now existing and as they arise. \$12,000

Environment: The United States, as part of the G-7, signed a Memorandum of Understanding with Ukraine in December 1995 which commits Ukraine to close the Chernobyl NPP by 2000. Continued operation poses a threat to Ukraine, the region, and, potentially, North America. FSA-funded assistance programs are designed to help Ukraine meet these commitments and also to ensure the safety of remaining reactors.

\$61,000

Health: USG assistance programs support restructuring of the health systems in Ukraine, both public and private, to increase efficiency and responsiveness to the needs of the population and to reduce the incidence and impact of disease in Ukraine. \$10,000

Performance Evaluation:

- **The provision of productive employment within their respective disciplines to scientists and engineers previously working in nuclear and other weapons sectors.** STCU has approved over \$25 million worth of projects that employ thousands of former Soviet scientists and engineers who might otherwise pose a serious proliferation threat.
- **Reform, measured by increased EU and G-7 donor support and by enhanced IMF and World Bank programs.** The Russian financial crisis spilled over into Ukraine, harming the country's balance of payments and slowing the pace of reform. IMF disbursements under the EFF were temporarily suspended. EBRD and World Bank funding depend upon their resumption. Domestic political constraints have further slowed reform and reduced international confidence. However, Ukraine passed a budget for 1999 which narrows the deficit and may help restore confidence.

- **Increased number of private media outlets established and operating free of government control.** There is a wide variety of press available in Ukraine. However, in advance of the 1999 presidential elections, the Ukrainian Government appears to be exerting pressure on opposition press to discourage negative reporting on government activities.
- **Enactment and Implementation of Laws Fostering Business Development and Investment.** Ukraine has made some progress in creating legal, tax, and regulatory systems compatible with a free market economy, but the absence of a modern commercial code and lack of transparency in these systems makes the investment environment unattractive. Despite government promises, official corruption remains an impediment to business activity. Foreign direct investment in Ukraine has, as a consequence, lagged behind that of most of its neighbors.

Key Indicators for FY 2000 Performance:

- Continued adherence to bilateral understandings regarding control of nuclear and other WMD technologies, proliferation, and conventional arms transfers.
- Increased international confidence in Ukraine's commitment to reform, measured by increased EU and G-7 donor support and enhanced IMF and World Bank programs.
- Free and fair presidential elections.
- A stronger and more independent media.
- Enactment of policies and legislation that support energy sector restructuring and reform, especially nuclear safety.

UKRAINE
FUNCTION 150 RESOURCES
(\$ in thousands)

Appropriations Accounts by Strategic Goal	Actual FY 1998	Estimate FY 1999	Request FY 2000
Regional Stability	6,050	4,678	4,650
FMF-G	3,800	3,400	3,400
IMET	1,250	1,278	1,250
Weapons of Mass Destruction	6,381	2,284	30,557
FSA	6,300	2,000	30,000
NADR-Export Control	81	284	557
Open Markets	7,264	2,800	4,000
FSA	7,284	2,800	4,000
U.S. Exports	8,900	2,500	2,000
FSA	8,900	2,500	2,000
Economic Development	80,293	59,325	51,000
FSA	80,293	59,325	51,000
International Crime	6,260	3,950	5,000
FSA	6,260	3,950	5,000
Democracy	37,460	43,945	44,000
FSA	37,460	43,945	44,000
Humanitarian Assistance	7,207	11,100	12,000
FSA	7,207	11,100	12,000
Environment	62,565	59,880	61,000
FSA	62,565	59,880	61,000
Health	8,751	9,500	10,000
FSA	8,751	9,500	10,000
Total	230,131	199,962	224,207

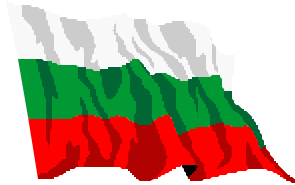
Appropriations Accounts	Actual FY 1998	Estimate FY 1999	Request FY 2000
FMF	3,800	3,400	3,400
FSA	225,000	195,000	219,000
IMET	1,250	1,278	1,250
NADR	81	284	557
Total	230,131	199,962	224,207
Other Accounts			
D&CP	3,744	3,988	4,159
ECE	2,493	2,239	2,342
Peace Corps	3,033	3,168	3,024
Total	9,270	9,395	9,525
UKRAINE FUNCTION 150 RESOURCES GRAND TOTAL	239,401	209,357	233,732

APPENDIX C





OVERVIEW OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAMS INVOLVING BLACK SEA LITTORAL STATES

Source: U.S. Agency for International Development
Congressional Presentation, Fiscal Year 1999
Annex III, Europe and the New Independent States



BULGARIA

	FY 1997 Actual	FY 1998 Estimate	FY 1999 Request
 Support for East European Democracy	\$34,000,000	\$31,000,000	\$30,000,000
 P.L. 480 Title II	\$84,692,819	--	--

Introduction.

A peaceful, democratic and economically prosperous Bulgaria will help to ensure a stable Balkan region, parts of which remain dogged by ethnic tension and social unrest. Bulgaria is strategically located between the oil and gas reserves of the Caspian basin and Western markets, and can play an important role toward facilitating the transit as well as the processing of these energy resources. Bulgaria is in good position to help with efforts to combat terrorism, arms proliferation and narcotics trafficking.

The Development Challenge.

In early 1997, Bulgarians forced out their socialist (ex-Communist) government. The new majority party, ousted in parliamentary maneuvers in 1992 after less than a year in power, renewed Bulgaria's commitment to fundamental economic reforms and established accession to the European Union (EU) and NATO as national policy priorities. It was able to build upon significant economic and political reforms enacted in 1990–92. Programs with the World Bank and the International Monetary Fund (IMF) were negotiated in mid-1997, have been adhered to, and major new initiatives are in process.

Bulgaria appears to recognize the historical opportunity to break with socialist patterns. The new parliament in May 1997 endorsed the introduction of a currency board, anti-corruption measures, EU membership, deep social sector reforms, and a medium-term program of economic revival emphasizing acceleration of structural reforms and the promotion of foreign investment. On July 1, the currency board was introduced to link the domestic money supply to the level of foreign currency reserves at a fixed exchange rate to the D-mark. Closure or isolation of state-owned enterprises (SOEs) responsible for 28% of budgetary losses was accomplished in 1997, and two-thirds of state-owned banks should be privatized by the end of 1998.

Bulgarian financial indicators have responded dramatically to reforms. Inflation, 579% in 1997, was down to a monthly rate of 1.5% in December. The 1997 budget deficit, 3.6% of GDP, was only 58% of the mid-year projection. The base interest rate has been around 6% for

several months. Preliminary estimates are that the decline in GDP in 1997 slowed to a stop in the fourth quarter. The government's target is for 4% growth for 1998, with yearly inflation of 16.4%. The fiscal deficit for 1998 is targeted at 2%.

With financial stabilization, the government has turned to economic restructuring and as sustained fight against corruption. Prior to recent political changes, cross-country comparisons showed Bulgaria lagging behind all other CEE countries in economic reforms. There was also little measurable progress in democracy between 1991 and 1997. There was even some backsliding in civil liberties, a reflection of corruption and the prior government's indifference and ineptness. By Freedom House assessments, rule of law and governance and public administration are least developed in Bulgaria; political process and media are most advanced; and civil society is somewhere in between. The new Bulgarian Government welcomes U.S. Government assistance in the area of crime and corruption, USAID's work is addressing the underlying causes of crime and corruption (e.g., judicial reform, development of an unambiguous legal framework for market reform), complementing efforts of other U.S. agencies, such as the DOJ, who address specific crime and law enforcement needs.

Responding to the complex challenges and opportunities afforded by Bulgaria's renewed reform effort, USAID adopted a new country strategy in late 1997 designed to accelerate the country's transition to "graduate" it from U.S. assistance over the five-year period, 1998–2002. Bulgaria's strong commitment to the EU influenced the graduation objective. The strategy strives to ensure maximum impact from current reform opportunities while building on successfully evolving programs. A key concept is that USAID assistance must establish self-sustaining local capacity by building intermediary support institutions which can assist local level constituents.

Other Donors.

Overall support to Bulgaria from the international community is substantial, with gross disbursements projected at more than \$1 billion in both 1997 and 1998, led by the IMF, EU and the World Bank. The U.S. manages the largest bilateral assistance program, and close coordination with other donors enables USAID to increase program impact. Bulgaria's commitment to institutional integration with the West, and accession to the EU in particular, is underlined by an EU program close to \$100 million in both 1998 and 1999, and roughly \$200 million a year thereafter. As the EU shifts towards targeting accession "gaps" and key infrastructure weaknesses, the potential for complementarities between the U.S. and EU programs grows. The EBRD prioritizes banking and capital markets, including a \$55 million post-privatization fund for long-term lending to small and medium enterprises (SMEs). The World Bank and IMF often sustain the impact of USAID programs, and USAID assistance can front-end Bulgaria's progress towards meeting multilateral conditionality. Collaborators in the NGO sector include U.S., British and German foundations. USAID's work with the judiciary is complemented by State Department and other donor assistance on criminal law enforcement, primarily by the EU and the German and Italian Governments. The Dutch, UK and Swiss

provide local government capacity building assistance. The United Nations Development Program (UNDP) focuses on the development of SMEs and governance decentralization.

FY 1999 Program.

Under the economic restructuring goal, USAID will help Bulgaria modernize and strengthen its financial system, in particular key banking and capital markets institutions. USAID will strengthen a network of private business support institutions; further improve the policy, legal, and regulatory framework for business development; and support public-private dialogue on strategies for private enterprise growth. Strategic objectives in this area include: accelerated development and growth of private firms in a competitive environment, and a more competitive and market-responsive private financial sector.

The increasing willingness on the part of Bulgarians to form partnerships to address commonly recognized issues is being matched by the growing competence of local government support organizations. USAID will continue assistance to local capacity-building, helping to produce grass-roots democratic structures that transcend political changes at the center and, with increasing effectiveness, mobilize citizens to speak out policy issues and act on their own problems. USAID programs will target key constraints to media development, the judicial system, and combating corruption.

In FY 1999, funding to the Bulgarian American Enterprise fund will be completed. Other crosscutting activities include support to American labor's international programs and to training in the U.S. and the region.

BULGARIA
FY 1999 Program Summary*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Cross-cutting / Special Initiatives	Total
Privatization					
Fiscal Reform					
Private Enterprise	5,000				5,000
Financial Reform	5,550				5,550
Environmental Management					
Energy					
Citizens' Participation		3,950			3,950
Legal Systems		2,500			2,500
Local Government		5,000			5,000
Crises					
Social Benefits					
Environmental Health					
Crosscutting / Special Initiatives				8,000	8,000
TOTAL	10,550	11,450		8,000	30,000

*Support for East European Democracy (SEED) Act Funds



TITLE: Private Enterprise, 180-S001.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: \$5,000,000 SEED Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Accelerated development and growth of private firms in a competitive environment.

USAID Role and Achievements to Date: In April 1996, seven USAID-financed providers of assistance organized themselves into the Firm Level Assistance Group (FLAG) to coordinate service delivery to Bulgarian enterprises. FLAG members collaborate in marketing advisory and training services to clients, conducting analysis of client needs through standardized diagnostic techniques, matching clients with providers most appropriate to their needs, and delivering integrated service packages. Working in seven sectors, including agriculture and light manufacturing, FLAG provided technical assistance to 538 clients and trained managers of 651 companies in FY 1997 alone. The resulting number of improved business practices and new business linkages surpassed USAID targets. Flexibly responding to changing requirements as Bulgaria initiated a structural adjustment program in 1997, some FLAG members began advisory/training assistance to banks and members of the broker/dealer association, thereby paving the way for a comprehensive USAID strategic objective to strengthen the financial sector.

Bulgarian business people trained under a USAID program formed the Bulgarian Association of Partnerships (BAP) in May 1996. BAP has since become the lead lobbying and advocacy organization for SMEs, and its ten-point SME policy agenda was presented to the Bulgarian Government in March 1997. BAP, in turn, organized the National Forum, a policy-oriented umbrella group of associations representing 66,000 employees, that is working closely with National Assembly committees on legislative improvements favoring SME development.

Other business support organizations with significant leadership potential include the regional Chambers of Commerce. During the summer of 1997, USAID advisors organized a U.S. exchange program to familiarize chamber leaders with the marketing and business planning operations of U.S. counterpart organizations. An important theme was the potential for public-private partnerships of local government and business associations to stimulate local economic growth. One early result is that a participating chamber from eastern Bulgaria is establishing an SME business center and will collaborate more closely with small local businesses to address economic development needs.

In addition, three FLAG-assisted agricultural producer associations are providing leadership and services to their members. The Meat Producers Association, established with USAID assistance, has organized four annual meat products shows and now publishes a newsletter for its forty dues-paying members. The National Dairy Association has held three national dairy policy conferences, and the Fruit and Vegetable Processors Association is helping its membership improve quality standards to boost exports.

FLAG has also supported development of Bulgarian consulting firms. FLAG teams its U.S. experts with local consultants; uses them to analyze client firms; sends them to the U.S. for internships and training; and mentors focal firms in their own service efforts. To date, one-quarter of FLAG assistance has involved the consulting industry as recipients or providers.

USAID advisors helped develop Bulgaria's Collateral Law which was ratified in 1996, and subsequently helped establish a collateral registry. USAID contractors have also coordinated public participation in review of legislation conducive to private enterprise growth, including amendments to laws on concessions, privatization, and foreign investment. BAP board members, with USAID assistance, participate on nine legislative drafting committees. In order to further public participation in the legislative process, USAID advisors and BAP recently helped the Economic Committee of the National Assembly organize town meetings on SME development and legislative needs.

Description: The objective will be achieved through increased emphasis on strengthening business associations and other intermediate support organizations. USAID will make increasing investments in the associations, consulting firms, think tanks, and other business support institutions that will broaden the base for sustainable private enterprise growth. Working in partnership with Intermediate Support Organizations (ISOs) expands the reach and impact of firm level assistance and institutionalizes the processes by which the private sector can lobby, influence, and sustain policy change and legal reform long after USAID has departed. Progressively, FLAG will intensify direct assistance to ISOs and channel firm-level assistance through ISOs until U.S. providers can be phased out, with outyear assistance managed by ISOs. There will also be increased focus of firm-level assistance on priority sectors. The first phase of FLAG assistance concentrated on seven business sectors with apparent comparative advantage, including agribusiness, light manufacturing, tourism, and construction. Within these target sectors, 50-60% of FLAG clients have been in agribusiness and light manufacturing. In response to the current government's structural reforms, FLAG more narrowly focused its training and advisory efforts towards export prospects in agribusiness, light manufacturing, and tourism, while maintaining a broad range of services to the all-important agricultural sector and leading sub-sectors of meat production, fruits and vegetables, and grain/flour/baked products. Activities will also emphasize institutionalization of sustainable processes for policy, legal, and regulatory reform. High on the reform agenda are legislative and regulatory improvements related to land ownership, competition, customs, and taxation. To reinforce these actions, USAID advisors will also help Bulgaria define a longer-term reform agenda, beginning with identifying priorities with the SME community and improving skills in legislative drafting. Complementary efforts will be directed to improving ISO capabilities in advocacy and lobbying and organization of a public education series on small business. In the energy sector, USAID advisors will assist in drafting an energy law which is a precondition to energy sector restructuring, privatization, and regulation. As an extension of energy sector restructuring, USAID may assist in privatization, with the USAID role viewed as catalytic, leading to, broader support for reforms by other donors, especially the World Bank and EBRD. USAID will also

make selective interventions to improve the government's capacity to support sustained private enterprise growth. It will also help strengthen indigenous capabilities in economic policy analysis and formulation on a selective basis. A limited-scope advisory/ training effort on macro-economic policy is contemplated. The Ron Brown Fellowship Program will assist the development of economic policy-makers, particularly fast-rising professionals within government, through one-year training at U.S. universities.

Host Country and Other Donors: Among other donors, USAID has the most significant assistance program for private enterprise growth and development. Multilateral agencies have not played an important role at the enterprise level, although their support for growth-oriented macro-economic policies is crucial. EU's assistance to management training for business and civil service executives and support of a new SME Agency in the Ministry of Industries are the most complementary ongoing programs. In addition, the British Know How Fund, the Dutch and the Swiss have provided some limited assistance to SMEs.

Beneficiaries: The direct and primary beneficiary is the private sector. All citizens are, in effect, secondary beneficiaries, as a result of the overall improvements in the economy, the increased availability of jobs, and the increased quality, quantity and availability of consumer goods.

Principal Contractors, Grantees, or Agencies: USAID implements activities through numerous intermediaries; GOB ministries and courts; the International Executive Services Corps (IESC); University of Delaware; World Learning, Agriculture Cooperative Development International/Volunteers Overseas Cooperative Assistance (ACDI/VOCA); Land O' Lakes; and MBA Enterprise Corps.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Percentage of GDP provided by the private sector	45% (1996)	70% (2002)
Exports as percent of GDP implemented	19% (1995)	45% (2002)



TITLE: Financial Reform, 180-S001.4

STATUS: New

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$5,550,000 SEED Act

INITIAL OBLIGATION: FY 1997; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A more competitive and market responsive private financial sector.

USAID Role and Achievements to Date: Since April 1997, in response to requests from the International Finance Institutions (IFIs) and the GOB, USAID has been working to stabilize the banking system by assisting in the privatization of the remaining state-owned banks. USAID advisors provide policy guidance and have been instrumental in developing marketing strategies and in preparing banks for sale. Recently, USAID initiated assistance to the Bulgaria National Bank to develop bank supervision functions focused on building on-site inspection capability and strengthening prudential regulations and their enforcement. In late 1996, USAID launched its Capital Markets Initiative to support the development of a Central Securities Depository (CDAD) and strengthen the relevant regulatory bodies. These efforts were focused on increasing confidence in market integrity and stimulating secondary market trading in securities generated by the mass privatization program. Much of this work targeting the CDAD and the broker/dealer association is in early stages. USAID recently supported a training effort to inform the policy debate on advantages of a two-tiered social security system including a mandatory supplementary savings scheme through private pension funds and a top-tier voluntary scheme through private funds.

Description: USAID's strategy for the banking system relies on a three-pronged approach: (1) stabilizing the banking system including privatization of state-owned banks; (2) strengthening banking supervision and the supporting legal/regulatory framework; and, (3) improving commercial bank operations and training bankers. In this way, the strategy works from top down and bottom up to promote systemic change. These mutually reinforcing technical assistance elements will remedy past errors and develop the regulatory institutions and community of professional bankers necessary to future stability. All are key in restoring public confidence in the banking system and in accelerating the development of a sound, functioning banking sector.

USAID assigns top priority to Securities and Stock Exchange Commission (SSEC) assistance in order to help that organization become a strong regulator and advance the laws and rules necessary for transparency and integrity in the marketplace. USAID also plans follow-on assistance to strengthen CDAD's clearance, settlement, depository, and registry operations, with emphasis on advisory assistance and automation equipment. Training for all market participants will complement and reinforce institutional improvements. Portfolio managers and financial intermediaries need to be trained to analyze and trade securities and evaluate risk. Of particular importance is the development of an ongoing training and certification program for the brokers/dealers association and its members. Public awareness and education are also essential to broaden participation and support for the capital market.

The current government has acknowledged the shortfalls of the public pension system, and expressed strong interest in creating the policy, legal and regulatory framework conducive to private pension funds. USAID plans to assist in drafting new legislation to allow further development of private pension funds, and creating a regulatory environment to protect investors and pensioners from fraud. The technical assistance program will focus on capacity-building of the regulatory bodies and pension fund managers. Public awareness efforts will increase understanding of the benefits of a private pension system and build interest/confidence among investors.

Host Country and Other Donors: The World Bank's Financial and Enterprise Sector Adjustment Loan (FESAL) reinforces USAID's efforts through conditionality related to an improved banking/credit legal and regulatory framework, bank supervision, and bank privatization. Early start-up of USAID assistance in these areas has advanced Bulgaria's progress on FESAL conditionality. EU is mobilizing assistance to the financial sector linked to EU accession standards. Its assistance to off-site bank supervision will closely complement USAID's work on prudential regulations and on-site supervision. Additionally, an EU program will help Bulgaria implement international accounting standards, a necessary condition to improving the soundness and transparency of financial information. Finally, the French Government plans assistance to the Bulgaria Stock Exchange – Sofia.

Beneficiaries: The Bulgarian population at large will have access to a much improved financial system.

Principal Contractors, Grantees or Agencies: Since this a new strategic objective for FY 1999, principal contractors and grantees have not been determined.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Private bank assets as % of total bank assets	22.73 (1997)	85 (2002)
Market capitalization as % of GDP	0 (1997)	25 (2002)



TITLE: Citizens' Participation, 180-S002.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999:\$3,950,000 SEED Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased, better informed citizens' participation in public policy decision-making. This will be accomplished by building the capacity of non-governmental organizations (NGOs) in playing a key role in facilitating popular participation in public policy decision-making. The objective is to develop grass roots organizations and the enabling legal regulatory environment for them, as well as promote information sharing and improve the credibility of information available through the media.

USAID Role and Achievements to Date: Through Democracy Network and Democracy Commission small grants, more than 100 Civil Society Organizations (CSOs) are receiving assistance to strengthen organizational skills and program activities. All have attended CSO training courses and continue to have in-house training scheduled upon request. Additional outreach was made to more than 40 CSOs to participate in the training program, even though they did not qualify for financial assistance. In the latest grant round, more than 500 CSOs submitted over 800 concept papers. Of these, 75% entail partnership projects where NGOs/local government authorities/media outlets/SMEs are equal partners in carrying out activities. Nearly 30 CSOs received special awards to deliver training to other CSOs. They will go through intensive instructions to develop appropriate curricula and training materials. Finally, providing feedback to local CSOs on their proposals coupled with specific training, e.g. proposal writing, tremendously increased the quality of submissions.

Progress in the area of mass media assistance was mediocre through the end of 1996, as efforts to, strengthen media associations faltered in the midst of economic collapse and political turmoil. The ruling majority (at that time the Bulgarian Socialist Party) passed an electronic media law over strong U.S.G. and EU technical objections. The Constitutional Court declared 15 articles of the Electronic Media Law to be unconstitutional as a result of a grassroots protest voiced before President Zhelev. Furthermore, a major breakthrough on legislative reform occurred after the public protest in February 1997: a broad-based grassroots initiative, supported by the USAID-funded ProMedia program, drafted a new broadcast media draft law. It is awaiting committee review before being submitted to the full Parliament. Other signs of progress include court registration and revitalization of Association of Bulgarian Broadcasters (ABBRO) as an organization and establishment of a media assistance coordination group to ensure that information on donor programs is regularly exchanged.

Description: The major activities are focusing on: (1) institutionalization within Bulgarian civil society organizations (CSOs) capabilities to obtain political access, services, and funds; (2) building the professional capacity of broadcast media; (3) assisting the GOB in its campaign to combat corruption through a special CSO program, planned to build public awareness about the impact of corruption on the economic well-being of individuals and the need to focus public disapproval on corruption; and (4) modest complementary democracy initiative to strengthen

the Parliament's ability to engage in public dialogue and enhance the institutional capacity of the Parliament.

Host Country and Other Donors: There are numerous foreign donors in the CSO sector. A few work to some degree through networks of intermediaries which they have helped to create (e.g., Soros Open Society Fund and Open Society Clubs), while other donors provide funding and assistance to individual NGOs (e.g. the EU Democracy-funded Civil Society Development Foundation). EU's support for public administration reform will provide critical reinforcement to USAID-financed CSO efforts to reduce public tolerance of corruption and press for corrective action. Among other things, civil service reform will seek to overcome poor working conditions and low salaries which contribute to corruption of government officials and strengthen oversight mechanisms such as the Government Accounting Office and inspector general functions.

The variety of players in the country and diversified nature of the CSO sector have led many donors and CSOs to conclude that closer coordination and information sharing is needed. However, while this problem is recognized and meetings have taken place, there is no consensus on an appropriate mechanism for pulling the CSOs and donors together to discuss their activities, share experiences and develop a sense of community needed to work together on common problems. The mission anticipates that the Democratic National Party will act as a facilitator for improved in-country donor coordination in the not-for-profit sector.

Beneficiaries: Indigenous grass roots organizations and, more generally, the Bulgarian populace will benefit from these activities at the community level.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S NGOs including The Institute for Sustainable Communities, Freedom House, and the International Center for Not-For-Profit Law; and the Bulgarian local government.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
NGO Sustainability		
Stages 1 (lowest) through 3 (highest)	Stage 2 (1997)	Stage 3 (2002)
Law adopted providing regulatory framework for NGOs	No (1997)	Yes (1998)
Cases per year of policy change attributable to CSO actions	3 (1995)	20 (2000)



TITLE: Legal Systems, 180-S002.2

STATUS: New

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$2,500,000 SEED Act

INITIAL OBLIGATION: FY 1999; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: An improved judicial system that better supports democratic processes and market reforms.

USAID Role and Achievements to Date: USAID regards an improved judicial system as critical to advancing the government's declared campaign against corruption, both to enhance integrity within the judiciary and to realize more expeditious prosecution of corrupt practices by government officials. Unchecked corruption threatens to stunt economic growth by draining away limited state resources, e.g., state enterprises that operate in an environment of corrupt practices or by providing incentives to investment ranging from excessive/unclear regulations for "doing business" to payment of protection money. In part, corruption has become pervasive because of the lack of professional esteem within the civil service, including the judiciary, reinforced by low pay and limited career development opportunities. Judges, who are the weakest link in the judicial "chain," will be the primary customers of this program.

Description: Together with the Association of Bulgarian Judges and the Ministry of Justice, USAID will help establish the curriculum and training activities of a Judicial Training Institute to provide continuing education for judges. The institute will give priority to: 1) educating judges about their rights and responsibilities, including a code of ethics to upgrade integrity of the system; 2) informing judges about new laws (especially those that contribute to the reform agenda) and related adjudication procedures; and 3) advising judges of new legal developments, e.g. seminars on alternative dispute resolution. Continuing education will serve both to elevate professional standards and provide an incentive for judges to work for extended periods in the system and pursue their own self-improvement. USAID will also provide assistance to improved curricula and teaching methods at Bulgarian law schools to further enhance the educational preparation of prospective judges.

Host Country and Other Donors: At present, very little donor activity is focused on the judiciary. Although the GOB requested the World Bank to provide assistance to the judicial system, no plans have been developed. The EU program has listed judiciary reform as a high priority within its public administration reform agenda. USAID anticipates that once a framework for continuing education and career development of judges has been established with USAID's support, other donors will help fund the continued strengthening effort.

The Government of Bulgaria is actively pursuing accession to the EU, which requires a demonstration that public sector corruption is being addressed. Bulgaria is also a participant in the Council of Europe's regional Octopus program which is developing strategies to combat crime and corruption. Council of Europe experts have helped Bulgaria develop guidelines for legislative initiatives which have led to amendments in the penal code.

USAID's work with the judiciary is complemented by other donor assistance on criminal law enforcement, primarily by other U.S. agencies, the EU, and the Governments of Germany and Italy. Considerable assistance has been provided and being planned on anti-crime legislation and technical assistance, training, and equipment for law enforcement activities of the Interior Ministry, Customs Administration, and to a lesser extent, the Prosecutor's Office and National Investigative Service.

Beneficiaries: The direct beneficiaries of these activities are a significant percentage of the Bulgarian judiciary, including judges, lawyers, prosecutors and law students, and indirectly every member of the public who comes in contact with the legal system.

Principal Contractors, Grantees, or Agencies: Since this a new strategic objective for FY 1999, principal contractors and grantees have not been determined.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Cases brought to trial and completed	10 (1997)	TBD (2002)
Average experience of judges	3 Years in court (1997)	TBD (2002)



TITLE: Local Government, 180-S002.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$5,000,000 SEED Act **INITIAL**

OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: The strategic objective envisions Bulgarian local governments that make choices responding to citizen expectations; act on those choices effectively, and increase accountability for their choices and actions. Local governments that exercise well-informed choice in partnership with citizens and community-based organizations can solve problems, identify and maximize opportunities, narrow the gap between resources and responsibilities, and successfully engage the central government on policies and laws to encourage local initiative.

USAID Role and Achievements to Date: During 1995-96, Local Government Initiative (LGI) made substantial gains in energizing local governments despite the generally inhospitable environment of a centrist government, blurred authorities, and limited financial resources. The ten pilot cities program and municipal association building program strengthened capacities of reform-minded local governments to improve operations, increased citizens' interest and participation, and (through associations) created an effective national policy dialogue.

Since elections in 1997, relations between central and municipal government have improved. Formed less than a year ago, the National Association of Municipalities is providing leadership to local governments in shaping the national reform and legislative agenda. Among other things, the Association has submitted recommendations on legislation affecting municipal finance and organized an unprecedented session with the Prime Minister in September 1997 to present its agenda. Follow-up consultations between the Association and the Finance Ministry to work on the 1998 Government Budget resulted in a greater proportion of the business tax going to municipalities (10% vs. the traditional 6.5%). Five regional associations of municipalities have made impressive strides towards organizing capacity-building services for local governments, disseminating information, and coordinating regional action on development problems. A recent example is the establishment of a municipal energy efficiency network to promulgate the results of USAID-supported energy efficiency work with regional hospitals.

Through a small grants program, LGI has helped ten target cities put in place numerous reform practices designed to improve service delivery, strengthen governance, and facilitate the local government role in economic development. Examples include a local economic development agency, automated management information system, streamlined system for issuing property permits, improved expenditure control system, and new processes to facilitate citizens' participation with local governments. Successful reform practices are progressively upgrading the service performance of target cities and providing models for replication. To support these efforts, LGI also organized training courses in municipal administration and finance that have been well attended, laying the foundation for an institutionalized training program.

Overall the LGI has facilitated development of local-level institutions which are providing effective input to the central government on policy reform. Their increased effectiveness through

periods of centrist) pressure and political turnover is the cornerstone of a strong foundation for grassroots democracy in Bulgaria.

Description: Despite progress to date of the USAID-supported Local Government Initiative (LGI) in introducing innovative practices to target municipalities, most local governments still lack the knowledge and skills to apply improved management and service delivery techniques. Further, the Instruments for disseminating the most successful practices are still being developed. Increasing public participation in local government affairs remains a challenge because of local government inexperience with genuine public involvement, coupled with only partially developed NGO advocacy skills. On the other hand, the LGI has many assets to build on:

- Budding political will to examine and act on complex issues of fiscal decentralization,
- Increasingly competent and professional municipal leadership and front line workers,
- Slowly strengthening local government systems, practices, and structures;
- Clear, albeit lengthy, local government reform agenda, and
- Most importantly, an increasingly able set of institutions committed to advocacy, training, technical assistance and dissemination of best practices.

USAID is already implementing the second phase of LGI that works towards sustainability of the local government reform effort by placing major emphasis on building up local support capabilities and progressively shifting the lead role in upgrading local government operations to indigenous institutions. Principal program activities include: (1) increased reliance on associations and other intermediate support organizations (ISOs) to provide leadership on the reform agenda, training and advisory services on improved practices, support to municipal/regional planning, and advancing public awareness; (2) formation of public-private Partnerships to address community-based needs and reinforce the role/effectiveness of local government; (3) support for regional planning/development initiatives by groups of municipalities under the leadership of their regional associations; (4) parallel efforts on central government reforms essential to strengthening local government; and (5) increased people's participation.

Host Country and Other Donors: Several bilateral donors and EU provide assistance to various associations and municipalities in ways that complement USAID's efforts. The Dutch provide capacity building assistance to the National Association of Municipalities through the Foundation for Local Government Reform. The Swiss helped establish a regional municipal association in central Bulgaria and support community action projects through this association. The British Know How Fund provides technical assistance to four Bulgarian municipalities and supports twinning relationships between Bulgarian and UK municipalities. EU's Local Democracy Program supports citizens' participation in community partnerships and sustainable regional development.

Currently USAID is the only donor organization carrying out a comprehensive program of local government improvement. However, EU contemplates a major support program for regional

development, and the World Bank is considering a community-level job creation fund. USAID will coordinate closely with these development partners to enhance prospects for replication of successful LGI approaches to regional planning.

Beneficiaries: The LGI will directly benefit the people and the local officials of the 10 target municipalities. The rest of the populace will benefit through replication of successful models developed in the target municipalities as well as through the strengthening of democracy at the local level.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S. and local organizations, including The Research Triangle Institute, The International City Managers' Association, Development Alternatives International, KPMG, and other private firms and NGOs.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Citizen satisfaction with the decisions, Actions and decisions	TBD (1997)	TBD (2002)
Public goods and services over which Local governments have control	8% (1997)	TBD (2002)



GEORGIA

		FY 1997	FY 1998	FY 1999
		Actual	Estimate	Request
Freedom Support Act	\$26,900,000	\$92,500,000	\$80,700,000	

The emergence of a democratic, prosperous and independent Georgia advances U.S. long-term geo-political, economic and humanitarian interests. The consolidation of democratic order and introduction of market-oriented reforms under the skillful leadership of President Eduard Shevardnadze — and a progressive reform-minded Parliament — is permitting Georgia to focus its full attention on the formidable task of political, economic and social development after years of deadly internal conflict. Its strategic location makes Georgia critical to the oil and transportation equation in the Trans-Caspian region. As a vibrant, free-market democracy Georgia can become a stabilizing force in a region that is likely to be an important alternative source of U.S. oil supplies.

The Development Challenge.

Since independence, Georgia's economic and political stability has been severely hampered by internal conflicts (the Abkhazian revolt and South Ossetian separatist movement) and the dissolution of regional trade links caused by the break-up of the former Soviet Union. While the cessation of fighting and the establishment of both central democratic authority and a measure of macro-economic stability are cause for optimism, Georgia still faces formidable challenges in the transition to free-market democracy. A durable settlement to the various indigenous conflicts has proven elusive and the Georgian citizenry still faces considerable economic hardship, made worse by persistent energy shortages, endemic corruption and limited progress in putting in place the requisite legal, regulatory and policy framework for sustained growth.

The rupturing of trade links, the underdeveloped state of Georgia's financial markets, delays in carrying out privatization and economic restructuring, and one of the heaviest per capita debt burdens among the former Soviet republics (largely the result of purchase of natural gas abroad) are further impediments to a sustained economic turnaround. Tax collection rates remain very low, depriving state coffers of critical resources. Another brake on development is Georgia's faltering energy sector which is yet to undergo major reforms that are essential to improve efficiency and attract badly needed investment. Power outages are frequent, making winter months especially harsh. The near collapse of the system of social benefits on top of the slow rebound from the precipitous post-Soviet economic decline has produced a dramatic fall in living standards for the vast majority of the population. Even in the political sphere where

progress toward democratic governance has been impressive, institutions, policies and practices are still fragile. Political parties, independent media and the non-governmental organization (NGO) sector — are nowhere near being sustainable.

Despite these obstacles, Georgia has been making encouraging headway in all spheres since 1998 and shows determination to accelerate the reform process. President Shevardnadze has a constructive partner in the decidedly reformist parliament which is enacting legislation that will serve as the foundation for the new economic and political order. With backing from the International Monetary Fund (IMF), World Bank the U.S. and other donors, Georgia has cut inflation, imposed fiscal discipline, liberalized prices, stabilized the currency, set up a functioning banking system, and begun to push ahead with privatizing state-owned enterprises. In the political area, democratic rule is taking root. Citizen participation in the political process through electoral parties and non-governmental organizations (NGOs) is increasing. In the social sector, the collapse of the system of social benefits, including the health care system, has taken a heavy toll on the population. The humanitarian situation has shifted to one of endemic poverty. The Government of Georgia has begun to turn its attention toward systemic reform and putting in place a more market oriented system of health services and a more rational system of pensions and other social welfare subsidies.

Other Donors.

Other major multilateral donors and international lending institutions include the IMF, World Bank, European Bank for Reconstruction and Development and the European Union. Important bilateral donors include Germany, Great Britain, Netherlands and Italy. As elsewhere in the Caucasus, USAID has worked cooperatively with several of these donors and has been instrumental in leveraging large loans from the World Bank through targeted technical assistance.

FY 1999 Program.

With a degree of economic and political stability emerging, USAID has been able to reduce dramatically the proportion of its assistance devoted to humanitarian needs and to undertake a serious reform effort. The program in Georgia now integrates institutional and policy reform at the national level with capacity-building at the grassroots level. FY 1999 funding is requested to support economic restructuring; to bolster civil society, strengthen democratic local governance, and firmly establish the rule of law. Funding is also sought to reduce human suffering, particularly in the conflict region of Abkhazia, and to promote social, economic and political reform at the community level.

In the economic sphere, USAID will build on progress in privatizing state-owned firms, creating a legal and regulatory framework to help stimulate the growth of small and medium enterprises (particularly in the promising agricultural sector), fostering the development of a competitive capital market to increase access to credit, introducing greater accountability and transparency, and generally improving the government's capacity to manage macro-economic policy. FY

1999 funding will support strategic objectives in privatization, enterprise growth and development, private financial sector development, and energy restructuring.

While U.S. assistance has been instrumental in advancing democratization goals, the country's political evolution is far from complete. FY 1999 funding will continue to support strategic objectives in citizens' participation, judicial reform, and local government. USAID will address concerns with corruption — an area critical both to democracy and economic revitalization — by intensifying its efforts to accelerate legal and judicial reform.

In the social sector, efforts will continue to meet the basic needs of the most vulnerable segments of the population --particularly in the conflict region of Abkhazia — while working at the community level to increase household self-sufficiency and provision of basic services. In launching a community mobilization initiative, USAID will build on the World Bank's successful Social Investment Fund which was established to support community-level projects that stimulate local employment and income generation. These programs, which boost the capacity of local actors to work together to solve community problems, also support economic development and democracy-strengthening goals.

Under cross-cutting and special initiatives, USAID's principal activity is a large training program (including U.S.-based) which offers opportunities for Georgian citizens involved in many aspects of Georgian reform to enhance their skills. Training advances USAID strategic goals across the portfolio. In those instances where activities implemented by other U.S. Government agencies do not directly support USAID's strategic objectives, they are included as special initiatives. USAID will also contribute to Georgian government health reform efforts through institutional partnerships, strengthening of national health information systems and technical assistance in the area of women's reproductive health. In addition, USAID will provide vaccines, medicines and equipment to help combat immediate health problems such as infectious diseases, including tuberculosis.

GEORGIA
FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Crosscutting / Special Initiatives	Total
Privatization	2,600				2,600
Fiscal Reform					
Private Enterprise	7,850				7,850
Financial Reform	3,600				3,600
Energy	15,000				15,000
Environmental Management					
Citizens' Participation		3,720			3,720
Legal Systems		1,600			1,600
Local Government		800			800
Crises			20,430		20,430
Social Benefits					
Environmental Health					
Crosscutting / Special Initiatives				24,900	24,900
TOTAL	29,050	6,320	20,430	24,900	80,700

*Freedom Support Act (FSA) funds



TITLE: Privatization, 110-S001.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$2,600,000 Freedom Support Act

INITIAL OBLIGATION: FY 1998; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: Increased transfer of state-owned assets to the private sector.

USAID Role and Achievements to Date: The privatization of urban/industrial land and the strategic privatization of an important Black Sea port are two major pieces of the broad multi-year market reform program recently initiated by USAID. In one element of the program, USAID assists the Government of Georgia in its efforts to privatize urban/ industrial land, especially the land under and adjacent to privatized enterprises. USAID technical advisors have begun working with the State Department of Land Management to introduce a favorable legal and regulatory environment for urban and industrial land privatization. The USAID funded Poti Port Privatization work, is another important piece of the market reform program. The first phase has so far resulted in the development of a restructuring and privatization plan to improve the efficiency, productivity and competitiveness of the port and the design of a government-operated Port Authority plan that will provide an effective and transparent legal and regulatory structure for Poti Port operations. Public information activities have been conducted for key government officials, Parliamentarians, the media and Poti citizens on the various options for a privatization plan. A U.S. study tour for the key Georgian Government officials was conducted.

Description: This is a new SO in FY 1998 and still under design. The privatization of urban/industrial land requires establishing a titling and registration system and the implementation of an enterprise land sales pilot in Tbilisi and/or another urban area. As part of this program, USAID plans to assist in developing programs that inform Georgian citizens about urban and industrial land privatization issues and ownership rights. This program, which is closely linked to other components of the market reform program, will enable municipalities to generate income through tax revenues rather than land leases and allow enterprises to raise capital more effectively, including through the use of land as collateral. Phase II of the Poti Port Project will not commence until the privatization plan meets the approval of the Government of Georgia and it agrees to privatize at least 51% of the shares. This phase begins the implementation of the mutually agreed upon privatization plan in 1998 including drafting and implementing the legal and regulatory structure for the Port Authority, assisting in attracting and selecting strategic investors and training of appropriate port personnel.

Host Country and Other Donors: USAID advisors work closely with the State Department of Land Management. USAID also coordinates its efforts with both the World Bank and the German Organization for Technical Assistance (GTZ) on harmonizing registration and titling systems. Poti Port privatization requires that USAID coordinate with GTZ, the European Union (EU) TRACECA project, World Bank, EBRD, Trade Development Agency and United Nations Development Program (UNDP), all of which have programs or involvement affecting the port.

Beneficiaries: A comprehensive and legally recognized right to private land ownership is an integral part of a country's economic transition to a market economy. By securing title to their land, private enterprises will enhance their commercial viability and be more attractive to investors, both domestic and foreign. Poti Port is not only a vital gateway for Georgian and Caucasian trade and commerce with international markets, it also has the potential to become the region's largest commercial port and engine for economic growth. The successful privatization of Poti Port will also build support for privatizing other strategic industries such as energy, transport and telecommunications and thus provide economic benefits to the entire population.

Principal Contractors, Grantees or Agencies: The privatization of urban and industrial land is being implemented by Booz-Allen & Hamilton. International Business and Technical Consultants (IBTCI) is working on the restructuring of Poti Port.

Major Results Indicators: *

Urban land transferred from state to enterprises
Land titling and registration system established
Law enacted allowing the privatization of at least 51% of Poti Port

*These are illustrative indicators. Baseline and targets to be determined in FY 1998.



TITLE: Private Enterprise, 110-S001.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999 \$7,850,000 Freedom Support Act

INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Accelerated development and growth of private enterprise.

USAID Role and Achievements to Date: USAID is undertaking a broad, multi-year economic reform program for Georgia, including (1) urban/industrial land privatization, (2) comprehensive accounting reform, and (3) promoting the establishment and enforcement of new commercial laws, codes and regulations required to encourage and regulate business in an open, competitive market. USAID technical advisors have worked with the GOG, the IMF and the International Bank for Reconstruction and Development (IBRD) on macroeconomic policy adjustments and structural reforms which have put Georgia on the road to a market economy. USAID economic policy and legal assistance working with Georgia's national leaders have developed economic policies, laws and regulations to establish the market environment for private sector, particularly export-driven, growth and the absorption of new technology. The program focuses primarily on the private sector with the aim of increasing the level of investment in Georgia (both domestic and foreign), increasing the amount of private ownership of land and enterprises, and building enterprise productivity through changes in managerial accounting. In 1996 and 1997, USAID financed advisors to the Center for Economic Policy Analysis and Reform have supported national leaders in the promotion of private sector growth. The advisors also assisted in the integration of new commercial and civil codes into the new Civil Code. In late 1997, technical assistance teams were mobilized to initiate the land privatization and accounting reform components of this program, while preliminary assessment work was conducted for a second phase of legal and regulatory work scheduled to begin in 1998. In addition, the Georgians will have their first working party meeting on World Trade Organization (WTO) accession issues in February 1998.

Description: The urban/industrial land privatization activity will establish a favorable legal and regulatory environment, coordinate with other donors in establishing a titling and registration system, implement an enterprise land sales pilot program in one or more urban areas, and promote greater public awareness of urban/industrial land privatization issues. Ownership of their land will allow enterprises to obtain access to bank loans on more favorable terms, in addition to selling unwanted land to raise additional capital. The accounting reform activity will establish the legal, regulatory and institutional framework for financial accounting and auditing, based on international standards. In the private sector, accounting and reporting of financial information at the enterprise level guides capital flows and provides the basis for maximizing enterprise efficiency and profitability. The legal assistance activity will help Georgian leaders to establish a legal/regulatory environment conducive to private sector development, with particular attention to gaining accession to the WTO and establishing anti-corruption/good governance norms. To

expand and accelerate the transition to a more development oriented-program, USAID is increasing small and medium enterprise assistance, particularly to the agricultural sector. Via the Caucasus enterprise program, financing and technical advice are being provided to qualifying businesses. USAID-funded non-government organizations are identifying and assisting clients to prepare viable investment and business plans. USAID will encourage private agricultural sector investment, especially in the seed and agricultural inputs sectors, and provide technical assistance to private farmers' groups, other producer groups and input suppliers to improve management and services to clients and members. The private investment fund implemented through Overseas Private Investment Corporation (OPIC) and the small enterprise lending program will also support private sector development.

Host Country and Other Donors: Ongoing efforts to strengthen private enterprise are undertaken in coordination with the Minister of Economy, key parliamentary leaders, the President's chief advisor for economic reform, the State Department of Land Management, the World Bank, and the Dutch and German governments. In collaboration with USAID, small and medium enterprise credit support is being provided by the International Finance Corporation.

Beneficiaries: The government's economic policies, commercial laws and regulations and reformed institutions will set the stage for new investments and the rapid import of new technology which in turn will reemploy Georgia's skilled labor force in manufacturing and agriculture. Small and medium enterprises in rural and urban settings will also benefit from technical assistance and credit funds being provided.

Principal Contractors, Grantees or Agencies: USAID activities are implemented by contracts to U.S. firms (Sibley International, Booz, Allen & Hamilton), the University of Maryland, and grants to a number of organizations such as the International Executive Service Corps, Volunteers in Overseas Cooperatives Assistance (VOCA), Shorebank/Finca and the Eurasia Foundation.

Major Results indicators:

	<u>Baseline</u>	<u>Target</u>
Accountant/Auditor Professional Association	0 (1997)	1 (1999)
Private sector share of GDP	50% (1996)	65% (1999)
Foreign direct investment	\$6m (1995)	\$75m (1999)
Accession to WTO	No (1997)	Yes (1999)



TITLE: Financial Reform, 110-S001.4

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999 \$3,600,000 Freedom Support Act:

INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A more competitive and market responsive private financial sector.

USAID Role and Achievements to Date: USAID technical assistance has (1) helped Georgian entrepreneurs develop small and medium enterprises and create new products and services; (2) established a bank training center in a joint effort with the National Bank of Georgia (NBG) and leading local commercial banks; (3) partially installed an electronic payments system for expediting international and domestic financial transactions; and (4) designed and initiated implementation of a comprehensive system for regulated securities trading.

Description: USAID is financing technical assistance to implement electronic payment and accounting systems that will permit real time financial transactions to take place among domestic banks, between the central bank and its seven regional clearing branches as well as international transactions from the NBG platform provided to commercial banks. USAID will continue to provide a resident advisor and short-term technical assistance to train commercial bank managers and officers. The focus of this training is credit analysis, portfolio management, asset and liability management, international accounting standards, and internal audit. In addition, USAID will work with IMF and World Bank advisors to improve bank supervision through on-the-job training with U.S. bank supervision authorities and the Federal Reserve and to provide additional advisory services to the NBG in the broad area of bank supervision. USAID will continue a comprehensive capital markets development program designed to (1) establish an independent securities and exchange authority, (2) develop a mechanism for securities trading, (3) create a centralized clearing, settlement and depository system, (4) properly train broker-dealers, investment funds managers and other members of the securities community, and (5) assist newly-privatized enterprises to improve corporate governance and shareholder rights, and compliance with securities regulations pertaining to disclosure and reporting.

Host Country and Other Donors: USAID is coordinating its assistance activities with the NBG, the Ministry of Finance, the Securities and Stock Exchange Inspection Board, the World Bank, the IMF, and the EU.

Beneficiaries: USAID will assist Georgia in establishing the backbone of a modern financial sector both to facilitate the mobilization of domestic savings and to attract foreign investment. In the long term, Georgians will benefit from financial sector development and reforms as enterprises expand more rapidly, thereby generating employment; households gain access to credit for housing and consumer goods; investors secure ownership in enterprises; and the government reduces borrowing costs as a result of better functioning capital markets and enhanced stability and confidence in the banking sector.

Principal Contractors, Grantees and Agencies: USAID's investments in the electronic payments system are managed directly by USAID; and the Barents Group manages both the bankers training and capital markets activities.

Major Results indicators:

	<u>Baseline</u>	<u>Target</u>
Independent securities & exchange authority	No (1997)	Yes (1999)
Commercially viable securities trading system	No (1997)	Yes (1999)



TITLE: Energy, 110-S001.5

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY1999: \$15,000,000 Freedom Support Act

INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A more economically sustainable energy sector.

USAID Role and Achievements to Date: While initial USAID assistance to the energy sector involved the provision of critical equipment and fuel supplies, USAID assistance is now focused on the systemic economic reform of the sector. Energy sector reform is an essential and critical input to Georgia's transition to a market economy. USAID was instrumental in the GOG's decision to restructure the electric power sector and to pass an Electricity Law in June 1997 that created a national regulatory body. USAID provides extensive technical assistance to the new regulatory body relating to operating licenses, tariffs, and market rules for power sector operation. USAID has also assisted the GOG to develop a privatization strategy for power distribution companies and completed an analysis of how the more than 70 companies should be grouped economically to facilitate privatization. However, despite this progress, much work is still needed to implement the reforms and solidify them so that they cannot be easily reversed. In the oil and gas sector, USAID is continuing to provide support on legislation to facilitate the development of domestic resources, as well as encouraging dialogue with the GOG on a pipeline law to facilitate management of oil and gas transit pipelines across Georgia.

Description: USAID's emphasis is two-fold: (a) to create a climate that will attract private sector participation and ownership, with subsequent improvements in the management of resources and provision of services; and (b) to improve energy sector efficiency in economic terms, with subsequent increases in capital and operating resources. In the electric power sector, the two energy sub-sectors having the greatest impact on the Georgian economy are: the electric power sub-sector, which is vital to residential uses and to industrial productivity and; the geo-strategic oil sub-sector which is linked to the development of oil reserves in the Caspian Sea and exports to the region and outside the region. USAID resources will be used to support the restructuring and establishment of public-private corporations in the electric power, oil and gas sub-sectors. USAID assistance to bring about legislative and regulatory reform is focused upon promoting private sector participation in the sector. This assistance will strengthen the commercial operations of newly created sector businesses with the introduction of improved metering and collection systems and the adoption of international accounting standards. It will also mobilize private/public financing to reinforce the reform process, to undertake selected new energy projects and to rehabilitate the existing energy infrastructure. USAID is also performing a pre-loan analysis for the EBRD for the rehabilitation of the Zugdidi geothermal field, which will restore heat to light industries and to households.

Host Country and Other Donors: The European Union has undertaken comprehensive assessments in tariff structure, accounting, billing, and metering practices, while the World Bank is conducting a \$45 million loan appraisal of maintenance and rehabilitation work of electric

generation, transmission, and distribution. USAID complemented other donor activities with a pre-loan analysis of the Inguri Hydroelectric Station. The European Bank for Reconstruction and Development (EBRD) approved an \$18.1 million loan to a local power company to rehabilitate the Rioni hydro station and improve Operations and water treatment. The EBRD is also developing loan packages to repair the Inguri Hydroelectric Station, the largest hydropower station in the country, and to rehabilitate the Zugdidi geothermal field which provides heat to light industries and households in the region.

Beneficiaries: Approximately 1.3 million residential and commercial consumers of electricity.

Principal Contractors, Grantees, or Agencies: Three institutional contractors: Hagler Bailly (restructuring, privatization and legal assistance); Burns and Roe (rehabilitation of power systems); and the U.S. Energy Association (training in all energy areas).

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Oil-Gas pipeline legislation passed	No (1996)	Yes (1999)
Independent regulated utilities with meaningful financial statements established	0 (1996)	2 (1998)
Percent of power generators that are privately-owned	0% (1996)	80% (2001)
Percent of state-owned electrical enterprises that are fully divested	0% (1996)	90% (2001)



TITLE: Citizens' Participation, 110-S002.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$3,720,000 Freedom Support Act

INITIAL OBLIGATION: FY 1993, **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Increased, better-informed citizens' participation in political and economic decision-making.

USAID Role and Achievements to Date: USAID support for the development of independent television in Georgia has resulted in more than 20 independent stations broadcasting around the country, more than 3/4 of which are providing their own daily or weekly news coverage. In addition, USAID assistance has supported the improvement of the legal and regulatory environment for independent broadcasters. In particular, USAID-funded providers have had a measurable impact on the ability of small, independent television stations around the country being able to operate without government interference. USAID assistance programs in development of the "third" or NGO sector have played a significant and positive role in the rapid growth and maturity of the Georgian NGO community. These programs have focused on organizational, management and advocacy skills-building, as well as limited financial support to bolster capacity. A core group of some 50 NGOs based in the capital have advocated for change in legal and policy areas. This has led to changes to the NGO Law itself, including taxation issues, environmental and media laws, and key pieces of legislation such as the Law on the Procuracy, Law on the Courts and the Criminal Code.

Description: USAID contractors and grantees work with independent television stations, political parties, parliamentarians, and indigenous NGOs to foster the growth of civil society and grassroots democratic reform efforts in Georgia. The National Democratic Institute (NDI) provides training to political parties and factions, inside and outside the Parliament on building organizational capabilities, operating as effective parliamentary factions inside the legislature, upgrading parliamentary skills, strengthening party-constituency linkages, and building substantive political platforms. As requested by the Georgian Parliament, a program for restructuring and retraining of parliamentary staff began in FY 1996. ISAR (formerly the Institute on Soviet-American Relations) and the Eurasia Foundation provide assistance to indigenous democratically-oriented (non-humanitarian assistance) NGOs, working to improve management and communications capacity, and their ability to participate effectively in the development of democratic legislative and social reform. Also, activities will focus on improving inter-NGO coordination and developing effective strategies for communicating NGO interests/positions to the press and the general public. Working with Georgian independent television media, USAID provides limited but critical equipment assistance and training programs to bolster journalists' capacity to produce quality news reports on political developments. Media assistance also focuses on developing media associations and networks, providing training in management, advertising, and journalists' rights and responsibilities. Similar activities will continue in FY 1999 and evolve based on the changing needs and growth of Georgian civil society.

Host Country and Other Donors: In 1996, USAID initiated a regular Democracy Donor Coordination Group which meets every six weeks and represents all resident bilateral and multilateral donors (i.e., UNDP, EU, Organization for Security and Cooperation in Europe (OSCE), the British Government, etc.) that fund and/or implement democracy assistance programs. This coordination mechanism has proved extremely successful, not only in avoiding duplicative investments, but in adding value to USAID funded programs through cooperative efforts.

Beneficiaries: USAID-funded activities seek to benefit individuals and organizations actively involved in civic participation and democratic reform efforts, as well as the population at large over time, in encouraging further and deeper citizen participation in the country's transition to a democratic market-oriented state.

Principal Contractors, Grantees, or Agencies: U.S. Grantees include Internews, NDF, ISAR, International Republican Institute (IRI) and NAPA (National Academy for Public Administration). Additional grantees and contractors will be identified as assistance is expanded in this area.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Number of NGOs advocating for legal and policy changes	0 (1993)	60 (1999)
Number of NGOs rated as sustainable based on NGO sustainability index (1-lowest to 3-highest)	1 (1995)	2 (1999)
% of national legislation passed that is published/ covered in media	5% (1996)	30% (1999)



TITLE: Legal Systems, 110-S002.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$1,800,000 Freedom Support Act

INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: Legal systems that better support democratic processes and market reforms.

USAID Role and Achievements to Date: USAID assistance resulted in the establishment of an anti-corruption committee and its active investigation of more than eight cases of government corruption. USAID programs have provided technical and financial support to the Georgian Young Lawyers Association, Georgia's most progressive and only independent bar association, in the training and retraining of legal practitioners, including focus on international and new Georgian legislation and procedures. Significant impact can be seen in the advent of training to develop private law firms. USAID assistance is also being provided for the development and implementation of a new judicial certification system, as well as support in the planning and development of short and long term judicial training programs.

Description: USAID continues to provide assistance in drafting key pieces of legislation, including the Law on the Courts, the Law on the Procuracy, the Criminal Code, the Anti-Corruption Law, Criminal Investigations Law, and the Law on the Bar. The program will also provide appropriate (re)training materials to all Georgian legal practitioners, focused on what the new key commercial legislation means in practice. USAID will fund commentaries, a common European method, written by the Code's drafters, and will support their dissemination throughout the country.

Host Country and Other Donors: USAID works in close coordination with a newly established GOG Council of Justice, comprising representatives of the legislative, executive and judicial branches. In addition, USAID has established excellent working relationships with both the German and Dutch bilateral assistance providers, and cooperates with the Council of Europe. USAID is working in partnership with the World Bank as they begin the process of implementing a judicial reform loan to the GOG. The European Union will also be contributing to this effort.

Beneficiaries: Activities benefit Georgia's legal institutions and legal advocates in transition to a governmental system based on the rule of law and market principles. These activities will also benefit Georgians who rely on these institutions, both governmental and non-governmental, to support and protect their individual and property rights in accordance with the constitution and internationally recognized human rights statutes.

Principal Contractors, Grantees, or Agencies: The American Bar Association's Central and East European Law Initiative (ABA/CEELI), AMEX International, Inc.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Judicial reform laws enacted	No (1996)	Yes (1999)
Proportion of the population that understands civil and economic rights	3% (1996)	15% (1998)
Percent of power generators that are privately-owned	0% (1996)	80% (2001)
Judicial certification systems implemented	0% (1996)	90% (2001)



TITLE: Local Governance, 110-S002.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: \$800,000 Freedom Support Act

INITIAL OBLIGATION: FY 1996; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: More effective, responsive, and accountable local government.

USAID Role and Achievements to Date: Though a de-facto decentralization occurred during and immediately after the civil war, the election of President Shevardnadze in 1995 and consolidation of the ruling party's power has led to the establishment of a system of regional governor appointments, which has effectively "re-centralized" the system. The constitution of Georgia includes a clause relating to the establishment of a decentralized local government system only after the resolution of the issue of territorial integrity, i.e., the re-integration of South Ossetia and Abkhazia. However, in early 1996, the GOG determined that despite lack of resolution on these issues, it was critical for the development of the nation as a whole, and particularly in light of conditionalities for accession to European conventions, to move forward in establishing a legal framework for a local government system, as well as scheduling as quickly as possible local government elections. After much delay, the GOG, with USAID technical assistance, has finally moved forward in late 1997 to establish a legislative framework. Though not a fully decentralized system, this effort is a step in the right direction, and provides for local government elections to take place possibly as early as summer 1998. To date, USAID has not undertaken a major program in local government, although it has provided training for local and municipal officials, and invited them to workshops on local government issues in the NIS region.

Description: Following free and fair local government elections, USAID will work with senior municipal staff and community leaders in selected cities to provide training in key technical areas such as taxation, city management, and budgeting. Contractors/grantees will also work to develop a mayors' municipal association, which will aid in the dissemination of lessons learned and best practices among municipal officials and local council members, to help create an effective mechanism for lobbying the central government on issues of concern to local governments and their constituents.

Host Country and Other Donors: USAID coordinates its efforts with World Bank municipal development activities and with the European Union which is working with the Government of Georgia on civil service reform at the central government level.

Beneficiaries: This effort seeks to benefit Georgian citizens in a few targeted cities. However, the number of beneficiaries can grow through an evolving network of municipal/mayors' associations. Georgian citizens also benefit from more transparent, effective and efficient local governments with the capacity to provide municipal services which ensure a higher standard of living.

Principal Contractors, Grantees, or Agencies: Since activities to date have only been in training exchanges, principal implementors still need to be determined.

	<u>Baseline</u>	<u>Target</u>
<u>Major Results Indicators:</u>		
Legislation passed favoring local government autonomy	No (1996)	Yes (1999)
Local government elections held	No (1996)	Yes (1999)
Fiscal decentralization policies in place	No (1996)	Yes (1999)
Fiscal decentralization Implemented	No (1996)	Yes (2000)



TITLE: Human Suffering and Crisis Impact Reduced, 110-S003.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: \$20,430,000 Freedom Support Act

INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Reduced human suffering and crisis impact.

USAID Role and Achievements to Date: Since 1993, USAID has provided humanitarian assistance through U.S. non-governmental organizations (NGOs) and international organizations to assist Georgia's vulnerable population, particularly internally displaced persons (IDPs). This assistance met critical and immediate needs over the past three years for supplemental food, non-food household items, pharmaceuticals, medical services, water and sanitation facilities, some basic agricultural inputs, and heavy fuel oil for emergency energy needs. Additionally, USAID-funded NGOs have implemented activities in microenterprise development and income generation. They have provided inputs and technical assistance in agriculture, and have reactivated light industry in vulnerable communities. USAID also funded a Social Investment Fund pilot project in cooperation with the World Bank, modeled on successful experience in Armenia.

Description: USAID provides humanitarian assistance in the form of food, immunization programs, and shelter/sanitation rehabilitation. While maintaining reduced programs for vulnerable populations in Georgia proper, new programs in the areas of health, sanitation, psycho-social needs, income generation, and rehabilitation of health and educational facilities are being implemented in the region of Abkhazia which will facilitate resettlement and conflict resolution.

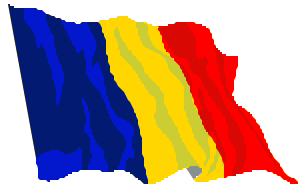
Host Country and Other Donors: Humanitarian assistance is provided in close coordination with the European Union, UN Department of Humanitarian Affairs, UN High Commission for Refugees, and the UN Development Program. Other assistance is provided by the World Food Program and the UN Children's Fund.

Beneficiaries: The estimated vulnerable population is expected to drop from 700,000 to 500,000 with improved targeting methods. Of this number, USAID activities benefit some 200,000 persons, both IDPs and non-IDPs, through direct humanitarian assistance as well as activities focused on income generation. Food assistance and food for work is provided to approximately 90,000 vulnerable people in Georgia.

Principal Contractors, Grantees, or Agencies: USAID funds humanitarian assistance through U.S. private voluntary organizations (PVOs) and international multilateral organizations, including Save the Children Federation, International Rescue Committee, United Methodist Committee on Relief, International Orthodox Christian Charities, International Federation of the Red Cross, UN World Food Program and other UN agencies.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Number of IDPs participating in USAID income-generating projects	58,600 (1997)	75,000 (1999)
% drop in estimated vulnerable population	700,000 (1997 base)	35% (1999)



ROMANIA

	FY 1997	FY 1998	FY 1999
	Actual	Estimate	Request
Support for East European Democracy	\$32,900,000	\$35,000,000	\$36,000,000

Introduction.

The U.S. assistance program to Romania supports U.S. economic, democracy, humanitarian, and national security interests. The United States has made its largest financial investment in the area of economic growth through efforts in privatization, private enterprise development, a restructured and more efficient energy sector, and a more sound financial system. Assistance has also facilitated other key transition goals by supporting decentralization, strengthening democratic institutions and non-governmental organizations (NGOs), increasing the delivery of child welfare and women's reproductive health services, and promoting the adoption of market-oriented environmental policies.

The Development Challenge.

1997 was a key year in Romania's transition. The Government of Romania (GOR) took radical steps to implement needed economic reforms, to decentralize decision making to the local level, and to make social issues a higher priority. U.S. assistance has refocused to play a key role in supporting the government's efforts in each of these areas over the course of 1998.

While positive results from the government's economic reform effort are beginning to surface, Romania continues to face a number of challenges. Inflation is expected drop in 1998, from the 131% forecast as the year-end rate for 1997 to 30% by the end of 1998. Private investment and the GOR's efforts to cut wasteful output and loss-making enterprises may aid Romania's ability to rebound from a 2% drop in real GDP during 1997 and meet projected levels of 2-4% growth in 1998.

Privatization for 1997 is 53% above the monthly pace for 1996, but only 70% of the pace required to achieve the 1997-98 targets set by the World Bank and USAID. Foreign investment proceeds reached 83.4 billion in December 1997, reflecting an inflow of more than 81.5 billion since the new government took office in November of 1996. However, investor concerns about bureaucratic red tape and the lack of transparency continue. In addition, the banking system remains weak and privatization of banks will be delayed until 1998. Unemployment is expected to rise from 6.9% to more than 10% in 1998, and real wages have

dropped significantly. The GOR's 1997 budget increased social welfare programs by about 25%.

With U.S. assistance, a Privatization Operations Center was established to conduct public auctions, special electronic stock market (RASDAQ) auctions of State Ownership Fund (SOF) shares to the public during off-trading hours, and large company sales through public offerings and sealed bids. To mitigate the economic and social effects of labor displacement as state owned enterprises (SOEs) are closed or sold, the U.S. Department of Labor is working to establish labor redeployment pilot programs in communities to provide counseling, small business incubators, and other labor/management interventions. Technical assistance to the SOF will likely continue through FY 1999, in order to help the GOR privatize approximately 3,600 firms. During 1998, USAID will develop a new 810 million Agribusiness Development Project. This reflects Romania's strong comparative advantage in agriculture. The Capital Markets Program has created a fluid share trading market for a wide variety of firms and investors, linked to the final stage of the Romanian Mass Privatization Program (MPP), during which tradable company shares are registered to individuals. USAID will strengthen the basic banking infrastructure to build strong, competitive private financial markets. Other efforts focus on policy and regulatory assistance and direct support for business development through U.S. private voluntary organizations (PVOs). Contingent upon the government's final approval of its restructuring plan, USAID will continue to assist the restructuring of the power sector, promotion of private participation, and the initiation and implementation of regulatory functions.

The GOR has embarked on a process of political and economic liberalization that is intended to expand participation within the framework of democratic institutions and the rule of law. USAID's support to Romania's democratic transition is focused on the improved effectiveness of the executive and legislative branches of the central government and increasing citizen participation in political and economic decision-making, primarily at the local level through non-governmental organizations (NGOs) and local governments. Two of the three basic elements of a municipal finance system, a Law on Local Taxes and Fees (adopted) and a Law on Local Public Finance (pending), were drafted with USAID assistance. Local government programs will receive increased emphasis through 1999.

Social sector restructuring programs are shifting the programmatic emphasis from direct service delivery to activities which address the systemic causes of social problems. U.S. assistance continues to target the special health and social circumstances facing children and women in Romania and continues to work for a health reform which will shift resources from expensive tertiary care to primary care. Family planning activities have facilitated an increase from 14% to 23% in the number of young people using modern methods of contraception. USAID will seek to build on this success, though activities in this sector will focus primarily on child welfare.

Other Donors.

SEED resources leverage substantial financial contributions from other donors. USAID-funded technical assistance has paved the way for: two energy projects (each for roughly \$300 million — co-financed by the World Bank, the European Bank for Reconstruction and Development (EBRD), and others); the \$250 million World Bank privatization and financial reform project; the \$100 million World Bank private agriculture effort; the \$55 million World Bank employment services program; the World Bank's \$100 million program to address industrial pollution and environmental legislation, the \$150 million health rehabilitation activity, the \$65 million EBRD municipal utilities project, and preparatory work for a proposed second tranche of loans for \$140 million. USAID's Democracy Network activity will provide institution-building to local NGOs in support of the World Bank's \$20 million Social Development Fund. The U.S. ranks behind the European Union (EU) and Germany among donors to Romania.

FY 1999 Program.

USAID's priority in Romania is to help the GOR formulate and implement a reform package which puts Romania firmly on the road to economic and democratic reform and responds to International Monetary Fund (IMF) and World Bank conditions. FY 1999 funding is requested for the following strategic objectives: increased transfer of state-owned assets to the private sector; accelerated development and growth of private enterprises; a more competitive and market-responsive private financial sector; a more economically sustainable and environmentally sound energy sector; improved environmental management capacity to support sustainable economic growth; increased, better-informed citizens' participation in political and economic decision-making; more effective, responsible, and accountable local government; and more effective and sustainable health services and benefits.

To accomplish this, USAID will continue technical assistance to advance a comprehensive and practical economic reform program, including an emphasis on private independent capital markets and legal reform, particularly in bankruptcy. Democracy-building priorities include decentralization of governing authority and fiscal control to the local level, and fostering the development of NGOs. USAID remains committed to pursuing key social service restructuring opportunities to address broader systemic problems resulting from the transition. Under cross-cutting and special initiatives, FY 1999 funds are requested for gender-related activities, training, and U.S. Department of Treasury activities.

ROMANIA
FY 1999 PROGRAM SUMMARY*
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Crosscutting / Special Initiatives	Total
Privatization	1,000				1,000
Fiscal Reform					
Private Enterprise	11,500				11 ,500
Financial Reform	4,500				4,500
Energy	3,000				3,000
Environmental Management	2,000				2,000
Citizens' Participation		2,500			2,500
Legal Systems					
Local Government		3,000			3,000
Crises					
Social Benefits			4,500		4,500
Environmental Health					
Cross-cutting / Special Initiatives				4,000	4,000
TOTAL	22,000	5,500	4,500	4,000	36,000

*Support for East European Democracy (SEED) Act funds



TITLE: Privatization, 110-S001.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$1,000,000

INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Increased transfer of state-owned assets to the private sector.

USAID Role and Achievements to Date: USAID supported Romania's mass privatization program through the establishment of a registry for the recording of share ownership and through the development of the RASDAQ stock exchange, through which shares of all privatized companies are listed and can be traded. Through creation of a market through which privatized companies can be traded, USAID has provided the catalytic agent missing in other privatization efforts — the introduction of market discipline and transparency. In addition, the RASDAQ is being used to sell the State's shares in 600 enterprises. Assistance is also provided for the sale of approximately 1000 small and medium State enterprises through open-outcry auctions and public tenders, used for companies in which the state owns over 50%.

Description: USAID supports privatization in three ways. First, assistance is accelerating privatization through establishing and implementing more efficient auction processes, including the use of the RASDAQ securities exchange which was established with USAID support. USAID provides: a) advisory assistance in drafting of laws and norms, developing new auction procedures (open outcry) and developing valuation procedures, b) technical assistance to prepare the RASDAQ for electronic auctions; and c) establishment of the Privatization Operations Center (POC) which provides back-office support to the SOF and day-to-day advisory assistance to the SOF and provides public education/awareness support, including a dedicated website.

Second, it provides assistance in the areas of competition and bankruptcy law and enforcement. We are assisting the GOR create the legal and regulatory framework for the capital markets and will continue to assist with the drafting and review of most major economic laws, e.g., securities, foreign investment, competition, bankruptcy, environmental protection and banking supervision.

Third, USAID provides labor market support which includes: (i) transitional income support for displaced workers (severance pay, unemployment benefits; (ii) rapid intervention and planning assistance to enterprises (to help them engage in the labor-shedding process; (iii) labor redeployment assistance given to local public and private service providers to facilitate employment and relocation services, retraining, public service employment, small business assistance; and, (iv) local economic development planning.

Host Country and Other Donors: USAID work in these areas is closely coordinated with the EU and The World Bank. In privatization, the USAID, World Bank and the EU each support one 'channel' of privatization. In labor redeployment, USAID technical assistance directly supports the World Bank's funding.

Beneficiaries: The beneficiaries are the Romanian people as a whole, as privatization will bring about the discipline, access to capital and foreign investment necessary to Romanian companies achieving competitive parity.

Principal Contractors, Grantees, or Agencies: Carana Corporation supports the privatization program, working in cooperation with the State Ownership Fund. Carana works closely with the Intrados Group which is working with RASDAQ to support privatization auctions. Carana Corporation, in conjunction with The Recovery Group, supports the bankruptcy program. The Department of Labor directs the labor redeployment activities, working closely with the Ministry of Labor.

Major Results Indicators

	<u>Baseline</u>	<u>Target</u>
Percent State Assets Retained by SOF	100% (1993)	20% (2001)
Number of Companies Privatized	1,350 (1997)	2,700 (1998)



TITLE: Private Enterprise, 180-S001.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$11,500,000 SEED Act

INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: Accelerated development and growth of private enterprises.

USAID Role and Achievements to Date: USAID's role is to assist enterprises develop business management capability and the capacity to find new markets, import modern technology, manage resources more cost-effectively and generate new jobs. Several hundred small businesses and several thousand entrepreneurs, including women and rural citizens, have found new markets, products, financing and technology through USAID assisted programs. In fact, in 1996 alone, the sales from USAID-assisted firms increased by 30%, far above the target of 5% growth.

Description: In 1998 USAID programs will accelerate the leverage of its assistance to small business by improving the ability of small businesses to qualify for loans and repay them. USAID programs will assist state-owned enterprises in promising sectors rapidly achieve privatization and profitability which will also stimulate foreign investment. The Romanian-American Enterprise Fund has also evaluated prospective investment projects and began its lending program during 1995, with a total of \$6 million through 1996 and \$17 million projected in 1997.

Host Country and Other Donors: Ongoing efforts in this sector are coordinated with those of other donors including the United Nations Development Program (UNDP), IMF, World Bank and EU.

Beneficiaries: The direct beneficiaries of this assistance are the private entrepreneurs of small and medium sized businesses.

Principal Contractors, Grantees, or Agencies: Washington State University, Citizens Democracy Corps, Volunteers in Overseas Cooperative Assistance (VOCA), Agricultural Cooperative Development International, Land O' Lakes, Aid to Artisans, Entrepreneurial Management and Executive Development IEMED), and Peace Corps. Romanian-American Enterprise Fund

Major Results Indicators

	<u>1995 Baseline</u>	<u>Target</u>
Increase in sales for USAID-assisted firms	Current level of firm sales	5% annual growth
Percent of annual GDP from the private sector	45%	75% in 2000



TITLE: Financial Reform, 180-S001.4

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$4,500,000 SEED Act

INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: A competitive, market-oriented private financial sector.

USAID Role and Achievements to Date: USAID undertook the development of: an electronic stock market (the RASDAQ) for trading of newly issued MPP securities; a central securities depository for RASDAQ market; an independent shareholder registry; telecommunications linkages; broker-dealer training; self regulatory organizations for both broker-dealers and investment companies; creation of new investment companies; a securities analysts training program; and assistance to the Romanian securities commission. USAID assists the Government to improve its implementation of public finance laws. USAID-funded US Treasury assistance resulted in a draft privatization law for state banks. A USAID-funded program has assisted Romanian bankruptcy courts organize bankruptcy proceedings; US Federal Bankruptcy judges, bankruptcy attorneys and trustees volunteers assist. As a measure of success, the growth of the volume of equity trading per week in 1996 was to 200%; well above the target of 50%.

Description: In the capital markets area, assistance is being provided to solidify growth of the RASDAQ electronic stock market and supporting institutions, promote regulatory implementation, and support the GOR's intent to use the securities exchanges for privatization.

USAID-funded advisors work with the National Bank of Romania to strengthen capacity to supervise and promote a safe and sound banking sector, through training bank examiners in on-site inspection policies and procedures, problem banks and prudential enforcement mechanisms. USAID continues to assist Romanian bankruptcy judges improve the administration of their courts as bankruptcy cases proceed under the new market-oriented law, primarily by adding the administrative, receivership and trustee functions which are missing in Romania, but required for legal bankruptcy in a market economy. US Treasury advisors have worked extensively with the National Bank of Romania, the Ministry of Finance and the Council for Coordination, Planning and Economic Reform to develop a market-driven government debt securities program to reduce the budget deficit; to improve the national budgeting process, and, to improve the administration of tax collection, auditing, servicing, etc.

Host Country and Other Donors: Ongoing efforts in this sector are being coordinated with the World Bank, EU, the British Know How fund and Canadian technical assistance teams.

Beneficiaries: The Romanian population at large will have access to a much improved financial system.

Principal Contractors, Grantees, or Agencies: Barents, INTRADOS, Carana Corporation, Financial Markets International, and the US Treasury.

Major Results Indicators

	<u>1995 Baseline</u>	<u>Target</u>
Percent of state-owned banks privatized	0%	100% (2000)
Number of licensed viable private Commercial banks	25	100 (2000)
Percent increase in volume of equity trading per week (Buch. stock mkt and RASDAQ)	\$50,000	1996: 50%; 1997: 30%; 1998-2000: 20% avg.
Number of well-functioning Mutual Funds	3	70 in year 2000
Number of registered Broker/Dealers operating on Stock and RASDAQ	40	250 in year 2000



TITLE AND NUMBER: Energy, 180-S001.5

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$93,000,000 SEED Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: A more economically sustainable and environmentally sound energy sector.

USAID Role and Achievements to Date: This component of USAID's assistance program has been developed in close collaboration with the World Bank and the EBRD, to leverage their combined \$600M investment program to the sector. USAID's program has helped shape and advance the Banks' reform agendas and is contributing a substantial body of analysis and action planning to make reform a reality. USAID's support has been critical to the definition of problems in the three sub-sectors and to helping design institutional solutions and a workable legal and regulatory framework.

Description: USAID assistance to the Power Sector has been focused on developing a restructuring plan that entails competition, private participation, and compliance with EU requirements. The GOR is in the process of reviewing this plan. Future USAID assistance will help to implement the plan. Recommendations for restructuring of the downstream (refining) sector included a restructuring strategy and a critical investment report. As a result, two refineries are slated for liquidation and there are plans to end all subsidies to refineries. Further assistance is planned pending GOR commitment to restructuring. Technical assistance and equipment will continue to the National Agency for Mineral Resources to develop and implement tariff system, elaborate, expand, and implement oil and gas sector regulations, and establish a management information system. Under the Energy Efficiency project, training and technical assistance is being provided to capitalize two energy service companies (ESCOs) able to carry out tens of millions of dollars of energy efficiency projects using Performance Contracting.

Host Country and Other Donors: The GOR participates in these projects with personnel and in-kind contribution. The World Bank, European Bank for Reconstruction and Development (EBRD), and European Investment Bank (EIB) are providing assistance, in the form of restructuring loans to the petroleum and power sub-sectors. These loans are being granted with the view to implement restructuring and modernization of these sub-sectors and promote private investment.

Beneficiaries: The primary beneficiaries of this assistance are the commercial and household consumers, through the supply of more efficient and less costly energy resources.

Principal Contractors, Grantees or Agencies: The primary contractor for the policy activities is Bechtel Corporation. Electrotek Concepts implements the energy efficiency activities.

Major Results Indicators

	<u>Baseline</u>	<u>Target</u>
External private investment in energy	\$150M	\$800M
Market share of independent power producers	2%	50%
Electricity and heat law enacted	None	Yes (1998–99)
Regulatory body established	None	Yes (1998–99)
Savings from energy efficiency projects	0	\$4M



TITLE: Environmental Management, 180-S001.6

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$2,000,000 SEED Act

INITIAL OBLIGATION: FY 1991; **ESTIMATED COMPLETION DATE** FY 2002

Purpose: To increase public and private capacity to address critical environmental constraints to sustainable economic development and growth.

USAID Role and Achievements to Date: USAID programs provide assistance in drafting and implementing environmental legislation and regulations in support of sustainable economic restructuring and growth. USAID has supported GOR efforts to develop a sustainable legal and regulatory framework. It included developing the Environmental Framework Law, the Waters Law, and implementing regulations in support of the Environmental Law. As a direct result of USAID's work in the policy area, the concept of environmentally sustainable development is prominent in the new legislation. Our support was key in encouraging public participation in the debate over and the development of the Environmental Law.

Improved industrial operations and practices have been installed through replicable pilot projects: An investment of \$28,000 for installation of a new frequency converter at the Sidex Steel Mill was returned almost immediately with an estimated annual savings of \$86,000 due to lower energy consumption. Additional savings in the coming years are expected due to reduced maintenance costs and emissions from the coke plant. Sidex intends to purchase at least 14 more similar frequency converters for similar applications.

In Zlatna, a demonstration project for reducing environmental risk to population was designed and implemented. The activity reduced the exposure of young children to lead; enhanced air quality monitoring and control system with local authorities; and improved occupational health and safety procedures at the plant. This pilot is being replicated in other cities.

USAID has carried out an institutional needs assessment of the entities responsible for the enforcement of the environmental laws and regulations. Based on the results, USAID will work with selected local entities providing training, TA, and limited equipment for compliance monitoring and enforcement. USAID will leverage other donor funding to equip local environmental organizations. USAID will also assist with the creation and strengthening of local environmental firms. The support will be designed to assist firms meet certification criteria and to develop model projects. USAID will select targeted polluting entities to provide TA and on-the-job training in complying with environmental regulations.

Through the Global Environmental Facility (GEF) Danube River basin Project, USAID will assist the GOR with its efforts to reduce emission of toxic compounds and pathogens to the Danube river and its tributaries. The GEF will also provide assistance to design and implement a transboundary alert monitoring system along the Danube River and its tributaries.

Host Country and Other Donors: The GOR participates in these projects with targeted cash contributions and with personnel and in-kind contributions.

The World Bank and EBRD provide assistance in the form of investment loans designed to improve local water management system and to finance investment at polluting enterprises.

Beneficiaries: Local communities, targeted industries and the Ministry of Waters, Forests and Environmental Protection (MOWFEP).

Principal Contractors, Grantees and Agencies: Camp Dresser and McKee (EHP), Chemonics (EAPS), World Environment Center (WEC), Harvard Institute for International Development (CE4P).

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Average blood lead levels in targeted areas	30-45 mg/d in 1995	23-38 mg/d in 1998
Environmental laws, and regulations developed	2 in 1997	3 in 1998
Environmental needs assessment	None (1996)	Yes (1998)
S02 and particulate level-in air		
(a) S02 (1000 tons/year)	1,335 in 1996	1,274 in 1998
(b) Particulates (1000 tons/year)	772 in 1996	751 in 1998



TITLE: Citizens' Participation, 180-S002.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999 \$2,500,000 SEED Act

INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: Increased, better informed citizens' participation in political and economic decision-making.

USAID Role and Achievements to Date: USAID concentrated its Democracy Network (DemNet) activities on the institutional strengthening of NGOs. Training and technical assistance were provided on proposal writing, advocacy and grassroots organizing, marketing and communication, administrative and financial management systems. Thirteen Romanian NGOs received sub-grants through the DemNet program. Recipients developed 40 proposals, to be funded by other donors. Handbooks on financial management, communications and fund-raising were published and distributed to the NGO sector.

USAID continued to provide training and technical assistance to the local media, focusing on television stations and newspapers outside the capital. Training emphasized business management (including advertising, sales, and circulation) and basic journalism techniques and standards. USAID also provided training aimed at improving economic reporting.

USAID provided support to the development of Parliament through the Congressional Research Service (CRS) program. The major elements of the program included technical assistance to develop the parliament's research, analysis, and reference capacity, the provision of automated equipment and software, and the enlargement of the parliamentary library.

USAID provided assistance to the Offices of the President and the Prime Minister and to Ministries in public relations in connection with the reform process. In addition, USAID provided assistance to the School of Magistrates and sponsored legislative drafting seminars for Parliament and the Legislative Council.

Description: Support to address institutional development of NGOs: An important objective for the GOR is to strengthen the government's relationship to civil society, i.e. to the citizens, through national and local NGOs. The vast majority of NGOs remain poorly organized and strapped for financing. Through continued training, technical assistance and sub-grants, local NGOs are helped to become self-sustaining and capable of: influencing the formulation and implementation of public policy; serving as a forum for public policy debate and advocacy; mobilizing private resources; forming partnerships and alliances with appropriate public and/or private organizations; raising funds to further the purpose of the NGOs and secure their financial and organizational sustainability.

USAID is also providing assistance to develop an effective capacity of civil society to address community needs and to leverage financial support from the World Bank's Social Development Fund and other donors.

Building on the accomplishments of its CRS activity, USAID has developed a new program to strengthen the Romanian Parliament. The program focuses on improving the work of the committees and parliamentary groups, and shortening the time needed between drafting, reviewing and adoption of legislation.

USAID will provide assistance to help GOR organize the reform process in order to be responsive to civil society and consolidate the democratic process. Many of the highest government leaders, including the President and Prime Minister, come from civil society backgrounds, as former leaders of NGOs or labor organizations. Such leaders and their key advisors, never having served in government, need help in organization and management in order to carry out proposed reforms. To this effect, USAID has started its assistance to the executive branch in organization/management, and other areas related to effectively carry out reform programs. Senior and mid-level government officials are participating in U.S. and Central Europe study tours, to meet and confer with their American and Central European counterparts.

Host Country and Other Donors: EU, EBRD, the Soros Foundation, International Republican Institute (IRI), and some individual European countries have programs which address this objective. Mission coordinates with other donors to avoid duplication of efforts. The Government of Romania does not provide matching funds or in-kind support for NGO development programs. Public Administration activities are largely supported by Romanian local government personnel and institutions, NGO recipients also provide facilities and support with their own personnel. USAID is the only donor addressing institutional development of NGOs.

Beneficiaries: The main beneficiaries are the local communities in Romania. Citizen groups and local NGOs will improve their public advocacy methods and skills, as well as their institution-building capabilities. Ultimately, NGO staff members will gain credibility and government officials will become aware of the value of dialogue, team work, and participatory training as examples of democracy at work in the effort to address needs at the community level.

The Executive Offices, the Parliament and the Legislative Council are also beneficiaries of USAID assistance. By increasing their capacity, these key institutions will become more responsive to citizens' needs and will make the reform process more sustainable.

Principal Contractors, Grantees, or Agencies: Assistance to civil society is implemented through a cooperative agreement with World Learning Inc., in collaboration with the National Democratic Institute for International Affairs (NDI) Freedom House/National Forum Foundation (FH/NFF) and International Center for Not-for-profit Law (ICNL) are also involved in the program, as regional contractors. This objective is also supported by work performed under SO 2.3, local government.

The assistance to the Parliament and the Executive Offices is implemented through a contract with Development Alternatives, Inc. Additional assistance in the legislative area is provided

through the American Bar Association's Central and East European Law Initiative (ABA/CEELI).

The assistance to the local media, as well as additional assistance to the Executive Offices in public relations, are provided through cooperative agreements with FH/NFF.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Number of priority community concerns formally targeted through collaboration between public authorities, civil society and citizens	0 (1997)	14 (1999)
Average Capacity rating for USAID-assisted local NGOs/PVOs (4 point scale)	1.3 (1996)	3.2 (2000)
Number of mechanisms established to enable the public to observe and contribute to an open legislative process and interact with representatives	3 (1997)	70 (2000)



TITLE: Local Government, 180-S002.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$3,000,000 SEED Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: More Effective, Responsive, and Accountable Local Governments.

USAID Role and Achievements to Date: USAID has provided assistance to several Romanian cities in housing and management through creation of condominium associations which no longer look to government for solutions, and in systems management for those same cities with emphasis on budget and financial management with the computerization necessary to support those systems. So far six cities have received technical assistance in budget and finance, the creation of modern program budgets, or computerization. As a result, two of these cities have been assisted in qualification for European Bank for Reconstruction and Development loans to improve their water and waste water systems. As a result of the condominium project, the new housing law passed in October 1996 will not only provide for the existence of condominium associations but will require their creation as replacements for tenant associations for privately owned apartments.

The Romania Public Administration Program began operation in October 1995. Its first public participation specialists began work in Romania at that time. As a result of their efforts, a citizen information center constructed, staffed and began operation in Slobozia, sponsored by the Lalomita County Council. In late 1996, a second information center was opened in Bucharest to service residents of the capital. The assistance was provided in cooperation with then Mayor of Bucharest Victor Ciorbea, who is now Prime Minister.

Description: By expanding the condominium activity, a local NGO capability to create and train condominium associations is being produced to cope with the national demand generated by the passage of the new condominium law. The result will be sustainable organizations nationwide capable of property management and maintenance and interface with local government agencies such as utility providers. The Romania Public Administration Program encourages decentralization of power to local authorities by increasing the capacity of local governments to perform their legal responsibilities. Among those responsibilities is economic development. The program focuses on economic assessments of each pilot city and the production of development plans for each. To combat the tendency to look to the central government for solutions, the public participation focus of the program encourages NGOs and individual citizens to participate in local authority decision-making and encourages local authorities to make effective use of citizens' input. The program initially targeted five pilot cities, and has been expanded to three more. The initial five were charged with transferring lessons learned to the second three and the eight will be the basis for spreading the benefits of the program throughout Romania.

The Public Administration Program focuses on economic development, public management, and public participation. It provides for short term advisors in each of these areas to concentrate activities on each of five pilot cities. The successful projects from each of these cities is being

transferred to five additional Romanian cities. The public participation focus of the program encourages NGOs and individual citizens to participate in local government decision-making and to encourage local authorities to make effective use of citizen input. Among the few permitted activities of local government is local economic development. As citizens become more involved in government, they will become equally involved in economic decision-making as well.

The Municipal Finance and Credit Program focuses on decentralization of financial authority from the central government to local authorities. It has provided direct assistance to the Romanian Ministry of Finance in the drafting and adoption of a new Law on Local Taxes and Fees and in the drafting and parliamentary consideration of a new Law on Local Public Finance. The program will continue to provide technical assistance to the government and to local authorities in the establishment and operation of a system of municipal credit. The ability to finance capital investment projects locally will enhance the ability of democratically elected local officials to provide services directly to their constituencies.

Host Country and Other Donors: EU, European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), the Soros Foundation, National Democratic Institute (NDI), and some individual European countries, notably the United Kingdom and Denmark sponsor programs that directly or indirectly impact this objective. Public Administration Program pilot cities do not receive similar assistance from other donors. Individual recipient cities provide facilities and support with their own personnel.

Beneficiaries: Public Administration beneficiaries are the citizens of the targeted communities who will enjoy improved services and have a greater role in running their communities. Local authorities will also benefit from training and skill development. Ultimately the central government will benefit through being able to turn over authority for essentially local activities to local authorities.

Principal Contractors, Grantees or Agencies: This objective is supported by contracts with Chemonics Inc. for the Public Administration Program and with the Urban Institute for the Municipal Finance and Credit Programs.

Major Results Indicators:

	<u>1995 Baseline</u>	<u>Target</u>
Revenue available from national and local sources	TBD	15% increase by 1999
Number of formal mechanisms for local governments to exchange ideas & involve citizens	1	20 (1998)
Percent of budgets of USAID-assisted local government units that are self-directed	0%	50% (2000)
	0	2 (CY 1997)
Laws establish regulatory and policy framework for decentralization		2 (CY 1998)



TITLE AND NUMBER: Social Benefits, 180-S003.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$4,500,000 SEED Act

INITIAL OBLIGATION: FY 1990; **ESTIMATED COMPLETION DATE:** FY 2002

Purpose: Individuals Receive More Effective and Sustainable Health Services and Benefits

USAID Role and Achievements to Date: Modeling prevention, community-based services, primary health care, and sound management practices has been a major focus for the last five years.

Community-based approaches to care of Romania's institutionalized children have been successfully demonstrated in ten counties. Social workers and educators have been trained and are working in collaboration with staff in government institutions to demonstrate services to prevent abandonment; facilitate family reintegration, domestic adoption and foster care; or improve the social and living skills for children and young adults. Government officials are starting to implement similar programs in other counties. Romanian social workers and managers trained through these projects are now taking a leadership role in addressing child welfare issues. National and local groups have been created to advocate for children's rights and to promote improvements in child welfare legislation and administrative policies.

Family planning services have been developed and seven clinics have provided high quality services and education, which have served over 27,000 women to date. The Ministry of Health is now utilizing staff trained by the program to train government family planning providers. Family planning managers are being trained in contraceptive logistics management.

A primary health care curriculum has been developed and approved by the Ministry of Education. More than 3,700 students, residents and general practitioners will be trained each year in primary health care at the Medical school in Cluj. Concepts of primary health care will be introduced to schools of dentistry and pharmacy.

Six new-born protocols are in place in 12 maternities and will be introduced in another 40 hospitals impacting 80% of all mothers and newborns. Safe and effective hepatitis B vaccines are now being given to all newborns whom are born in maternities. Over 17,000 workers have been screened for cardiovascular risk; those at risk will receive prevention education and follow-up screening. An early childhood development program has resulted in the development of a national curriculum that has been implemented at 20 government sites.

Health management technical assistance and training has focused on introducing to health managers and providers in the health reform districts concepts of quality assurance, practice management, and methods for determining costs and performance. The program facilitated the creation of work groups of general practitioners and specialists in two reform districts that are now developing practice protocols and standards to improve quality of care and have implemented procedures to increase client access to care.

Description: The GOR has taken great strides to decentralize the decision-making and management of child welfare systems to the local, county level. USAID will help three targeted counties set up the administrative framework for a community-based, family-focused child welfare system and reduce over-dependence on institutionalization of children. It is expected that these three counties will serve as models for other judets which support the GOR's objective to replace institutions with community based models of caring for children. USAID has already begun a policy dialog with the Secretary of State for Child Protection to encourage specific steps to begin de-emphasizing institutions and to redirect resources to alternative services and to rely more on prevention, family reunification, foster care, adoption and day care centers to solve the problem of children in need of protection.

Through the United Nations Children's Fund (UNICEF), the program will continue to promote the sustainability of community based care for children by educating policy makers about the achievements of the projects.

Seven USAID funded family planning clinics will implement sustainability plans. To increase access to modern contraceptives, private pharmacists will be trained in contraceptive marketing and operations management. The program will continue activities to help create a policy environment supportive of women's and children's health.

A health management training partnership will build upon program activities initiated to date and on a World Bank management training program. The partnership will strengthen the knowledge and skills of the health management training staff and health managers in the field by assessing and improving the health management curriculum. The program will facilitate linkages between health management training and practical application in the context of health reform implementation, through the development of case studies. The program will also facilitate information sharing and problem solving across reform districts and with other Central and East European countries implementing health reform.

Host Country and Other Donors: On going efforts related to women's and children's health are coordinated with those of other donors, including UNICEF, United Nations Fund for Population Activities (UNFPA), EU (Child Protection Program), and the World Bank. USAID is represented on the National Committee for the Protection of Children, which has developed a National Action Plan for child protection. The Ministry of Health is beginning to provide family planning services around the country and to provide training to about 400 general practitioners and obstetrical nurses.

Efforts related to health system reform are coordinated with the World Bank and EU. The World Bank has been the major donor in the health sector, providing loans for primary health care, family planning clinics, and a health management training institute. The Ministry of Health has initiated several laws related to health reform, has taken the initiative on developing a cost model, is implementing health reform in eight counties, and supports (through the World Bank

loan) the Institute of Hygiene, Public Health and Health Services and Management (IIPSSC). The IIPSSC staff is responsible for health management training and technical assistance to the reform districts.

Beneficiaries: All Romanians will eventually be impacted by health reform efforts. Women of reproductive age and children account for 40% of the population in Romania, or about nine million people. The USAID-supported program reached about one-half of these beneficiaries.

Principal Contractors, Grantees, or Agencies: USAID implements activities through U.S. PVOs, local NGOs, U.S. firms and U.S. universities including: Feed the Children, Holt International Children's Services, Project Concern International and World Vision.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
US model of community and family-based services for child care established in Romanian counties	0 in 1998	3 (2002)
Increased use of modern contraceptives	14% in 1993	35% (2000)
Percent of private sector in contraceptive procurement	5% in 1996	30% (2000)



	FY 1997	FY 1998	FY 1999
	Actual	Estimate	Request
Freedom Support Act	\$95,700,000	\$129,100,000	\$225,400,000

Introduction.

Russia's continued evolution toward free-market democracy remains central to the U.S. national security, political and commercial interest. In supporting and hastening that evolution, the U.S. seeks to build and consolidate new relationships with Russia, first as a full partner on a wide array of global issues — ranging from the maintenance of regional and international peace to the reduction of environmental threats — and second, as an active partner in trade and investment. The Russian Government has pursued a course that has permitted these relationships to take root while U.S. assistance has contributed significantly to the broad agenda of change and innovation, working with public and private Russian partners in virtually every sector.

The Development Challenge.

Over the past five years, progress toward reform in Russia has been remarkable. Some examples include: massive privatization efforts; free and fair elections; thousands of new business starts; transparent and legal capital markets; the establishment of tens of thousands of new non-governmental organizations (NGOs); over 500 new, local TV stations and 8,000 independent newspapers; increased efficiency in health care service delivery; new and environmentally friendly industrial processes, new land ownership laws signed by the President, and increased openness of local and city governments. While Russia can look with satisfaction at these achievements, the road ahead continues to pose challenges. For example, although the privatization process progressed much more rapidly than was anticipated in early 1992, restructuring of many of these privatized enterprises has lagged. Because it is such a new concept in Russia, the new laws surrounding private land ownership are controversial and their implementation continues to pose problems. Foreign investment levels are relatively low as potential investors display caution in the face of uncertainties about Russia's poor credit rating, a confusing tax system, and policies governing economic activity and foreign participation. Lessons from the late 1997 Asian economic crisis have underscored in the minds of many leaders the need to adopt more internationally accepted policies and procedures.

Corruption and organized crime continue to be of concern, reflecting a lack of effective and comprehensive systems to maintain the rule of law under transparent and democratic principles. A vigorous independent media has sprung up across Russia, providing significantly greater citizen access to

objective information and alternative points of view, but threats to independence persist. Democratic goals have also been furthered by the impressive growth of Russia's civil society. The growing non-governmental sector, while still in its early stages of development and still not firmly rooted, is becoming more active in providing a voice for people to express their concerns about government policies and programs. Among the challenges facing non-governmental organizations (NGOs) are the need to learn strong management practices and diversify their funding base. Production of greenhouse gases and other environmentally harmful industrial practices continue and an enforceable environmental legal structure has not yet been developed. As could well be predicted in any government and society experiencing such rapid change, the administration is not without the taint of scandal, but more importantly, leading reformers continue to receive prominent positions in the executive branch, confirming President Yeltsin's Government's commitment to push the reform agenda forward.

Fraying of the social fabric continues to threaten reforms. High unemployment, an inadequate housing stock, especially for demobilized military personnel, unpaid salaries, inconsistent pension payments to seniors and people with disabilities, less access to the education system, and health risks from infectious diseases and environmental factors have the potential to undermine the human resources necessary to sustain the significant progress Russia has made.

Key economic indicators for the Russian economy during 1997 are mixed. Preliminary data suggest 0.5% growth in GDP — the first GDP growth since the collapse of the USSR. These figures probably understate actual performance, particularly in the dynamic informal sector. Foreign investment in the economy reportedly grew in 1997 relative to 1996, but unemployment continues to rise. Russia's fiscal problems have not eased, with tax revenues falling so sharply that International Monetary Fund (IMF) disbursements were suspended before being resumed in January 1998. Two very encouraging indicators are the continued sharp decline in inflation (down to a level found in the U.S. in the early 1980s – 11%) and the success of both the Government of Russia (GOR) and a number of large enterprises in selling stocks and bonds abroad to foreign investors. Still, foreign investment levels are nowhere near those required to revitalize and expand Russia's productive capacity. Domestic investment will not be enough to overcome the investment shortfall - and many Russians now realize how vital foreign investment is. USAID support for tax and legal reform will likely play a role in increasing investor confidence over the medium term.

Other Donors.

A key objective of U.S. assistance to Russia is to serve as a catalyst for other assistance providers, both bilateral donors and most importantly, international financial institutions. USAID technical assistance has been crucial to laying the groundwork for large-scale World Bank loans to strengthen key institutions such as the Federal Commission for the Securities Market. USAID technical assistance has also been instrumental in securing over \$1 billion in World Bank loans for housing, communal services, legal reform, urban development and local infrastructure development. Improving coordination

with other bilateral and multilateral donors remains an important goal of USAID in Russia. USAID works closely with the European Union (EU), and G7 bilateral donors in a wide variety of technical areas, from health care to small business development to rule of law.

FY 1999 Program.

In FY 1999, U.S. assistance will continue to shift its support toward the trade and investment needed for Russia's economic growth and strengthening civil society. With the economy substantially in private hands and many new economic and political institutions in place, the Administration's Partnership for Freedom (PFF) and the companion Regional Investment Initiative will emphasize boosting trade between Russia and the U.S., facilitating rapid increases in foreign and domestic investment, fostering cooperative activities to strengthen civil society and democratic rule, and promoting durable ties between U.S. and Russian partners.

Under the goal of economic growth, USAID will focus activities on helping to remove the impediments to trade and investment. Funding is requested for strategic objectives in fiscal reform, private enterprise development, financial reform, and energy. In collaboration with United States Information Service (USIS) and Commerce, USAID will support the Presidential Management Training Initiative to provide training and internships in business skills to some 5,000 Russians per year. The U.S.-Russia Investment Fund will continue to play a critical role in supporting entrepreneurs and small and medium enterprises to energize the economy, create jobs, and build support for implementing reforms at the national level. Under the democracy and governance goal, USAID requests funding for two strategic objectives to increase citizens' participation and improve legal systems. Social stabilization, while alleviating hardship, is a critical element of ensuring that hard-won reforms are supported and sustained. Under the social stabilization goal, USAID will continue to focus on health care finance reform, hospital partnerships to improve the care available to citizens in selected cities, and activities designed to address both the public health and economic dimensions of environmental degradation. Funding is requested for strategic objectives in sustainable social benefits and services environmental health.

Planned activities under Crosscutting and Special Initiatives include targeted training, exchanges and partnerships between American and Russian organizations, program design and evaluation, and the broad program of the Eurasia Foundation. USAID will continue its work to strengthen legal codes and the judiciary, while Department of Justice (DOJ) and the Federal Bureau of investigation (FBI) will address crime and corruption prevention. Activities of mutual concern undertaken in support of the Gore-Chernomyrdin Commission and the Partnership for Freedom, and under the auspices of the Regional Investment Initiative, are also being funded under this rubric. USAID, in concert with DOE, will continue to help foster privatization, rate setting and price incentive rationalization in the energy sector, which has benefits for both the economy and the environment. Support is provided in areas such as health, energy, environment, agriculture, and capital markets/business, with activities being carried out on a multi-agency basis, with the relevant U.S. Government agency assuming lead responsibility for

implementation. Other U.S. Government entities participating through inter-agency transfers from USAID include EPA, Health and Human Services (HHS), United States Forrest Service (USFS), Treasury, United States Information Agency (USIA), Department of Energy (DOE), Peace Corps, Commerce, USDA, DOJ, and National Science Foundation (NSF).

RUSSIA
FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Crosscutting /Special Initiative	Total
Privatization	8,500				
Fiscal Reform					8,500
Private Enterprise					53,000
Financial Reform					13,650
Energy					1,500
Environmental Management					
Citizens' Participation		15,900			15,900
Legal Systems		5,000			5,000
Local Government					
Crises					
Social Benefits			2,700		2,700
Environmental Health			12,000		12,000
Crosscutting/Special Initiatives				113,150	113,150
TOTAL	76,650	20,900	14,700	113,150	225,400

*Freedom Support Act (FSA) funds



TITLE: Fiscal Reform, 110-SOO1.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$8,500,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Tax system reformed.

To support the development of an efficient fiscal system in Russia which is adapted to the needs and functions of a market economy as well as to the government's need to raise revenues sufficient for public expenditures.

USAID Role and Achievements to Date: Since 1994 USAID has provided a range of technical experts and training opportunities to the Ministry of Finance, the State Tax Service (STS), the Russian Parliament (both the Duma and the Federation Council), and regional oblasts to support primarily initiatives in tax reform. The advisory services have included experts in drafting of tax legislation, administration of tax systems, protecting and monitoring of tax revenues, and analysis of yield and impact of alternative tax rules. USAID has also supported municipal government efforts to introduce local property tax as a major revenue source, and to improve budget and revenue management at the local level.

The Ministry of Finance, assisted by U.S. legal and economic advisors, prepared a comprehensive draft Tax Code during 1994-96, but adoption has been stalled due to strong opposition in the Duma and from some Government of Russia (GOR) factions, in the face of such opposition, the government has set more modest legislative goals, focusing its efforts on tax administration procedures, the VAT, and profits and excise taxes.

USAID has been assisting with the design of efficient, market-based local property taxes in two cities which, with the support of the MOF and Duma, are expected to be pilots for nationwide introduction of the property tax as a primary source of local revenue. With confidence in this revenue source, municipalities will become increasingly willing to privatize municipal property rather than hold onto commercial land and buildings in order to retain the flow of "leasing fees" that are now a major source of local revenue.

Description: USAID supports a variety of program initiatives related to tax policy development and implementation. Under tax legislation, USAID advisors have worked closely with the Russian Government to develop a draft Tax Code. When adopted, the Code will substitute for seven existing tax laws to make the tax system more simple and effective. In the area of intergovernmental relations, advisors are working with the GOR on the separation of fiscal authorities between the federal, regional and local governments. Furthering more rationale approaches to the budgeting process, advisors have developed revenue-estimating models for major taxes to be used in forecasting receipts and analyzing revenue impact of alternative tax policies. These models will be used in a newly established department

within the Ministry of Finance, whose primary tasks is revenue estimation. Assistance is also provided to the State Tax Service, in establishing improved systems for tax administration, covering such areas as arrears collection, large taxpayer programs, audit procedures, centralized processing of tax declarations, and organizational structures. Lastly, USAID helps train auditors in modern audit techniques.

USAID and U.S. Department of Treasury advisors will continue to help improve tax administration, while legal and economic advisors will continue to assist the MOF and Duma with problem-diagnosis, program design, and legislative action on the GOR tax reform program. That will include assistance in reform of individual income and payroll taxes and tax regimes for selected sectors as well as continued advice regarding changes to the VAT. USAID will also support continued implementation of the new property tax system in pilot cities.

Host Country and Other Donors: USAID works with the Ministry of Finance, the State Tax Service, and Parliament and coordinates closely with other U.S. agencies (principally Treasury) and other supporters of Russia's reforms, particularly the International Monetary Fund and the World Bank, both of which are also providing technical assistance and training in fiscal issues and tax administration.

Beneficiaries: Business investors, recipients of state payments (pensioners, public employees, and suppliers), and the general atmosphere of "financial discipline and fulfillment of payment obligations" will benefit from reform and improved administration of Russia's tax system. The current system imposes high tax burdens on honest taxpayers but suffers from poor tax compliance, excessive exemptions and arrears of major enterprises, and inefficient administration. Dwindling real revenue collection threatens the viability of Russia's macroeconomic stabilization program, erodes the capacity of the government to deliver basic public services, and, through "sequestration of expenditures," results in state delinquencies to pensioners, state employees, and government suppliers that sets a bad example of payments arrears that permeates much of the economy.

Principal Contractors, Grantees, or Agencies: Fiscal reform activities are implemented under the overall direction of USAID. The Georgia State University (GSU) is now serving as the overall technical coordinator for the U.S. Government's tax reform activities in Russia. The Department of Treasury participates actively in the program through inter-agency transfers. KPMG's Barents Group, the Center for Financial Engineering and Development, the Soros Foundation, and Georgia State University are all deployed in different aspects of the program.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Fixed capital formation increases	17.7% of GDP (1995)	22% (2000)
Tax revenue: actual as a percent of planned	79% (1995)	95-105% (2000)
Tax code adopted	0% (1995)	Adopted (1999)



TITLE: Private Enterprise, 110-S001.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$53,000,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Accelerated development and growth of private enterprise, based on individual initiative and the operation of market forces.

USAID Role and Achievements to Date: USAID has made direct contributions to developing the policy, legislative and regulatory framework appropriate for private sector growth through the provision of expert technical advisors, training and study tour opportunities, by providing direct technical assistance to small, medium and large firms by volunteer executives, and by financing experimental models which have demonstrated what can work in Russia. Successful models of private ownership and management in firms both large and small have been developed in collaboration with private Russian partners and the relevant lessons have been shared with policy makers at all levels of government.

A primary element of USAID's private enterprise development efforts has been the support for an increasingly viable network of business support institutions rendering services to entrepreneurs and businesses. USAID-supported professional associations, training institutions, consulting firms, business incubators, business centers, and financial institutions are already significantly improving the business skills of thousands of entrepreneurs, contributing to a more favorable business policy climate in the regions, and spurring new enterprise starts. The outreach of this business support network has been significant, providing business skills training and consulting assistance to over 200,000 entrepreneurs. More than 200 institutions from Novgorod to Yekaterinburg to Sakhalin Island make up the network and provide a direct channel for USAID support at the grassroots level for enterprises and businesses. Conservative estimates by USAID's contractors and grantees point to the creation of nearly 50,000 new jobs, and over 5,000 new businesses in Russia through out programs. Surveys of clients indicate that USAID business support services have resulted in business growth and long-term impact, reporting increases in production, sales, customer base, and net profits. Small business clients of USAID programs have been able to secure over \$30 million in loans from a variety of financial sources.

Member-institutions of this network have already developed, or are working to solidify, a capacity to widely disseminate, expand, and sustain support for business development well beyond the life of USAID funding. Through this network of institutions and other USAID programs will continue support for the development of new and small business focused on: building entrepreneurial skills through targeted, sector-specific consulting assistance and training; and increasing access to capital — the flow of finance and investment for micro enterprises, small and medium businesses. This second focus is related to and coordinated with USAID programs under the financial sector development strategic objective.

Description: FY 1999 funding will be concentrated on four major areas. First, USAID will continue work to develop the local training, consulting, and advisory capacity of the business support network. A centerpiece effort for direct assistance to Russian private enterprises will continue to be USAID's cost-effective, targeted consulting provided by 3 U.S. business volunteer organizations — the International Executive Service Corps (IESC), Citizens' Democracy Corps (CDC), and the Agricultural Cooperative Development Institute Volunteers in Overseas Cooperative Assistance (ACDI/VOCA). Under these programs, U.S. business experts will continue to provide sector-specific, hands-on consultations and on-the-job training to Russian firms which request assistance in marketing, business planning, financial management, accounting, and in accessing finance and investment. The organizations will work in conjunction with Russian business support institutions conduct training in response to Russian client needs. Other USAID programs like the University of Alaska's American Russian Center program in the Far East, will continue to work hand-in-hand with Russian partner institutions, and USAID intends to provide direct technical assistance to the most active Russian business support institutions in the network to solidify the development of a sustainable local capacity for business support.

Second, under legal and regulatory reform, USAID will address the design and implementation, at both federal and oblast levels, of cost-effective environmental and economic policies that will foster sustainable development. There is also a training component aimed at enhancing the ability of Novgorod Oblast and municipal officials to develop the Novgorod region as an attractive location for investments. The training also cultivates a corps of local business consultants which will support business development activities. USAID programs in this area are increasingly focused on regions which are particularly reformist, progressive, and have taken steps to attract business and increased investment.

Third, USAID will address the design and implementation of land privatization, titling and registration. It will also deal with land mortgage procedures and systems to provide private land tenure and the ability to monetize land assets. There is a component aimed at disseminating model legislation and procedures developed through pilot projects. Training of local officials in the processes required to establish a private land market also plays an important role.

Fourth, USAID will promote models of private ownership and management largely in the agriculture and agribusiness sector. Activities will include a continuation of the farmer-to-farmer (more accurately, an agribusiness-to-agribusiness) program, continuation of a sustainable agriculture pilot outreach effort, work on collateralized grain storage through use of warehouse receipts and rural credit programs undertaken in collaboration with Russian commercial banks.

Host Country and Other Donors: USAID works with private Russian institutions, the managers and owners of private enterprises and associations of private businesses, and with various Ministries and agencies of the government at both national and local levels. USAID collaborates with other donors seeking to support private sector growth, especially the British Know-How Fund, the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation, and the World

Bank. The EU provides complementary support as do both private and public representatives of European governments.

Beneficiaries: Accelerated development and growth of private enterprises in Russia will benefit all stakeholders. GDP and productivity have been declining for years. Official unemployment is growing as large firms, especially those which have been part of Russia's impressive military industry, begin to downsize. More successful businesses will provide new jobs and new incomes, leading to further growth and stability of the Russian economy.

Principal Contractors, Grantees, or Agencies: USAID works with dozens of U.S. non-governmental organizations as well as for-profit contractors in implementing a broad program of support to private sector growth.

Major Results indicators:

	<u>Baseline</u>	<u>Target</u>
Private sector production as % of GDP	20% (1995)	45% (1999)
% of Household income from private sector sources	27.8% (1995)	50% (1999)
Number of USAID-assisted firms receiving outside financing	0 (1992)	2000 (1998)



TITLE: Financial Reform, 110-S001.4

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$13,650,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: A robust and market supportive financial system.

USAID Role and Achievements to Date: As the principal donor to the development of financial markets in Russia, USAID has provided technical assistance in the development of legal frameworks, regulatory mechanisms and operational procedures for both the capital markets and the banking sectors. USAID advisors have been the central players in the establishment of the Federal Commission for the Securities Market, and in developing the institutional infrastructure for trading of shares in a secondary market. The Russian Trading System, which assures transparent operation of the secondary market, was initially funded by USAID, but has developed into a self-sustaining mechanism for over-the-counter trading. USAID's assistance has been crucial in the development of an increasingly well regulated capital market and to increased confidence among foreign investors in Russia. Advisory services to the Central Bank of Russia (CBR) have led to the establishment in 1993 of a capable bank inspection department. Training since 1994 has increased the capacity of middle- and upper-level managers to manage risks more prudently and boosted their lending skills.

Description: Under the capital markets rubric, assistance will focus on the development of the regional structure for the securities market. This includes support in developing uniform communication systems for real time data, and drafting regulations to establish a legal and organizational basis for regional offices of the Federal Commission on the Securities Market. In addition there is training in administrative and functional areas as well as seminars on enforcement and administrative issues to promote consistence in operation of the securities market countrywide. Continued support will be provided for professional partnerships such as, the Russian Trading System and NASDAQ, The Russian National Association of Professional Market Participants and NASD, and the Russian Depository Clearing Corporation and NSCC. Another important activity is the facilitation of the introduction of International Accounting Standards (IAS).

Under the banking rubric, USAID activities support the creation of a basic financial infrastructure in central banking and commercial banking. Technical services include expert review and commentary on draft legislation and regulations and specialized seminars for financial sector audiences in Russia. The bank supervision activity focuses on developing the capacity to conduct on-site bank examinations; provide technical advice on off-site bank analysis, supervision and issues of rehabilitation; and conduct problem asset management and/or liquidation of failed banks. USAID will assist in the development of a training manual which adapts international standards to the Russian banking industry. USAID-funded assistance will also support the strengthening of regional banks and the dissemination of information to the local business community on the types of banking services available.

Host Country and Other Donors: USAID plays a critical role in the financial sector. Activities are used as practical laboratories for future funding by the World Bank, the EU, and other donors. The World Bank will be providing a two-tranche loan totaling \$120 million to the capital markets sector because USAID technical assistance has provided the Russian Commission on the Securities Market with sufficient knowledge to manage the loan and implement policy. USAID works closely with the GOR on developing a regulatory and legal environment conducive to a robust financial sector.

Beneficiaries: Russian business, which creates jobs, Russian citizens, who will be able to count on understandable bank regulations, personal investment vehicles, and Russian banks are the principal beneficiaries of these activities.

Principal Contractors, Grantees, or Agencies: USAID implementers include: KPMG, Booz Allen, Intrados, HIID, IBTCI, PW, Burson Marsteller and Financial Services Volunteer Corps (FSVC), the latter primarily responsible for the continuing banking supervision work.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Total assets of banking system as % of economic output	40.7% (1993)	75% (2000)
Bank licenses revoked by the CBR	85 (1994)	1200 (1999)
Regional bank training centers established/licensed	0 (1994)	2 (1998)



TITLE: Energy, 110-S001.5

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$1,500,000 Freedom Support Act

INITIAL OBLIGATION: FY 1993; **ESTIMATED COMPLETION DATE:** FY 2000

Purpose: A more economically and environmentally sustainable energy system.

To improve the efficiency and performance of energy production and consumption in Russia, support electric power sector energy sector privatization and market reform, and reduce safety risks of Soviet designed nuclear power plants.

USAID Role and Achievements to Date: Since program inception in 1993, USAID assistance has addressed the transition of the electric power sector through the establishment of competitive markets, commercialization of selected sector enterprises (regional electricity utilities) through introduction of financial reporting and management systems, and promotion of foreign and domestic investment. USAID has assisted RAO UES and other government entities as appropriate in the development and implementation of the competitive Wholesale Electric Power Market.

In the spring of 1997, major management changes occurred in RAO EES Rossii at the senior management level. USAID and the new management decided to shift the emphasis of USAID assistance from the formulation of the wholesale electric power market to working with the primary implementors, Central Dispatch Administration (CDA) and Unified Dispatch Administrations (UDAs). Under the commercialization program the contractor focussed on two pilot regional electricity utilities, with the intention to spread the experiences to other regions.

Program on Natural Monopolies (PNM) has continued to provide the Federal Energy Commission (FEC), the national regulatory body, with a wide range of legal and economical advice including drafting revised Charter of FEC, and identifying legal issues and deficiencies in the draft legislation "On Federal Energy Systems." PNM has continued to work on establishment of Regional Energy Commissions as functioning entities and created two model regional commissions in the Republic of Karelia and in Saratov that can be widely replicated in other parts of Russia.

PNM has continued to work with World Bank on restructuring of electric power monopoly RAO EES Rossii including a review of the company's revised 1996 Charter, and advise on matters relating to the Annual Meeting of Shareholders held on May 30, 1997. On behalf of MOE, the PNM is undertaking research to identify international experience of restructuring and introduction of competition in the electric power and natural gas sectors to be eventually disseminated to various interested parties.

Description: The electric power restructuring assistance will continue to focus on two transition tasks for the remainder of the project. First, USAID will support the development and implementation of the competitive Wholesale Electric Power Market that will provide for a more cost effective production,

transmission and distribution of electric energy to all consumer groups. This work will contribute to the promotion of investment in the electric power sector and provide opportunities for U.S. entities. The efficiency effort will have a direct positive impact on global climate change (in particular global warming) as electric power generation is one the major contributors to particulate emissions. Second, under the commercialization program, USAID will continue to focus on the two pilot electricity utilities, spreading the results of this effort to other regions.

Assistance to regional energy commissions will also be emphasized, as FEC further delegates responsibilities to that level. Two model regional commissions will be replicated in other parts of Russia. Legal assistance to Russian counterparts intended to develop and implement a market failure-correcting and pro-competitive structure and regulatory system for the country's natural-monopoly of infrastructure service industries will be continued to include such sectors as water supply, sewage and district heating

Beneficiaries: The project will directly benefit energy managers through specific hands-on assistance and development of programs to be implemented in the sector, and will indirectly benefit the ultimate consumers and citizens of Russia who depend on these energy sources. It will also directly address social and economic unrest caused by disruption in the production and distribution of electricity.

Host Country and Other Donors: The project will be coordinated with the World Bank, the Commission of the European Community, the European Bank for Reconstruction and Development (EBRD), the Organization for Economic Cooperation and Development, the International Atomic Energy Agency and other international and bilateral donors to the New Independent States.

Principal Contractors, Grantees or Agencies: Hagler Bailly and Burns and Roe (contractors), U.S. Energy Association and IRIS (Grantees). USAID also works with the U.S. Department of Energy and the U.S. Nuclear Regulatory Commission in implementing the energy program in Russia.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Competitive energy production % of energy provided	0%	25%
IAS installed in electricity utilities	0	7
Regional regulatory bodies instituting rate structures on cost of service	0	4



TITLE: Citizens' Participation, 110-S002.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$15,900,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased, better informed citizens' participation in political and economic decision-making.

USAID Role and Achievements to Date: USAID provides grants to U.S. organizations to provide technical assistance to electoral commissions at the national, and increasingly the regional and local levels, to provide training for political parties and civic organizations and to develop outreach and communication strategies for parties and Duma factions. The most recent Parliamentary, Presidential, and regional Gubernatorial elections were judged to be free and fair by both domestic and international observers. Internews, an American NGO dedicated to strengthening independent media around the world, has, with USAID funding, played a key role in Russia through training and facilitating networking among both broadcast and print media. A clear demonstration of success was the direct access and objective reporting provided the Russian people on the events in Chechnya. USAID-funded NGO assistance provides training directly to citizens on how to communicate their concerns and demands to public officials. USAID has established NGO support centers in 27 towns and cities covering almost two-thirds of the Russian federation with the aim of ensuring long-term access to information and training in support of ongoing civic advocacy efforts.

Description: USAID-funded technical assistance, training and partnership programs will continue to target citizens, communities, NGOs, public officials, and various political party officials in order to expand public outreach efforts and to increase participation. The National Democratic Institute (NDI) and the International Republican Institute (IRI) will continue their work in political party building at the national, regional, and local levels and in strengthening political institutions essential to democracy. Major grant programs will be administered directly by USAID (often through umbrella grants to U.S. NGOs), such as the Sustaining Partnerships into the Next Century (SPAN) program, which will provide funding to sustain partnership activities between Russian and American organizations in the areas of civil society, rule of law, tax reform, financial sector, business development, energy, environment, and health. The Eurasia Foundation will continue its role as a major grass roots grant-making institution to assist economic and social reform. Twenty media partnerships, plus thirteen Sister Cities regional newspaper partnerships, between American and Russian entities were initiated by the Media Development Program from 1995-1998. At least sixteen of the twenty partnerships and most newspaper partnerships have achieved progress toward self-sustainability. Media partnerships will continue to promote business development of selected media, upgrade professional standards and expand access to independent sources of information. Under the Regional Investment Initiative (RII), NGO, local government, and private sector elements are brought together in selected communities to simultaneously address two principal elements of the Partnership for Freedom: reducing impediments to trade and investment and increasing citizens' participation in civil society. As part of the Partnership For Freedom, funds will be provided to make change permanent by endowing key U.S. and Russian institutions.

Host Country and Other Donors: Russia has dozens of political parties. USAID has emphasized responding to requests for technical advice and training services from those parties generally viewed as "reform-oriented." Work with citizens' groups has generally been carried out through NGOs and in concert with local institutions, including municipal governments. Other donors have been active in electoral process issues; USAID has coordinated regularly with them in all election run-up periods and will continue to do so. USAID also works cooperatively with other bilateral donors providing assistance to the media and, increasingly, to Russian civil society.

Beneficiaries: The entire citizenry stands to gain as a direct result of USAID programs under this strategic objective. The political process activities are of greatest importance to voters and public officials at the national and regional level. Both independent media and NGOs can reach a large portion of the Russian population. Independent media provides more objective news coverage essential for informed debate while NGOs offer an avenue for citizen participation in economic, social and political decision making.

Principal Contractors, Grantees, or Agencies: USAID is working with the following: International Republican Institute (IRI), National Democratic Institute (NDI), International Foundation for Electoral Systems (IFES), ISAR, Save the Children Federation, American Center for International Labor Solidarity (ACILS). United Way International, Internews, National Press Institute (formerly RAPIC), and the Moscow School of Political Studies.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Access to independent TV	12% of viewers (1995)	21% (1998)
Increased and strengthened party identification among voters	22% (1994)	25% (1997)
Number of media partnerships that are fully self-sustaining	0 (1995)	3 (1999) 7 (2001)
Share of assisted NGOs showing increased domestic funding	15% {1995}	40% (1997)
Number of social services contracts awarded competitively to NGOs by local governments in three targeted regions	0 (1995)	20 (1997)



TITLE: Legal Systems, 110-S002.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$5,000,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Legal systems that better support democratic processes and market reforms.

USAID Role and Achievements to Date: USAID's Rule of Law program focuses on three principal aspects of legal reform in Russia: judicial reform (including enforcement of judgments and alternative dispute resolution), legal education and training, and commercial law drafting. Work in the area of commercial law drafting has been particularly successful, with numerous new laws and decrees being adopted in the past year. To compliment these achievements in the legislative area, USAID has worked with the Rule of Law Consortium to ensure that all Russian Commercial Court judges are familiar with new legislation, including the Civil Code. USAID support assured that all 1600 commercial court judges in the country received Part 1 and 2 of the new civil code and other laws and that over 40% of these judges received training on substantive, Russian commercial law topics. In 1996, Russia moved to strengthen the independence of its judiciary, creating a Judicial Department to put administration of the courts of general jurisdiction into the hands of judges. USAID has asked the National Judicial College in Reno, Nevada, to work with us in ensuring that this department fulfills its role. USAID has started to work on improving enforcement of judgments, and is discussing assistance as Russia sets up a Russian equivalent of the U.S. Marshal's Service, which in addition to handling court security will enforce civil judgments. We will continue to support alternative dispute resolution mechanisms. USAID is also funding the U.S. Department of Justice, which is helping Russia reform its criminal justice system, USAID will also address corruption with new activities promoting judicial ethics and discipline and improved government auditing. Another important USAID-supported effort is the work with many local NGOs to improve advocacy and outreach, helping Russians become more aware of their rights in such areas as housing, property, civil rights, and environmental protection. The Free Trade Union Institute works with local legal groups to provide citizens with the resources and encouragement to seek enforcement of their labor rights and to organize into effective, independent labor unions. We continue to support the Sakharov Center.

Description: USAID will continue its dual focus on creating the requisite legal and regulatory environment to promote trade and investment and the rule of law while combating crime and corruption. Activities will include continuing support for judicial training and reform, the new judicial department, alternative dispute resolution, enforcement of judgments, legal education, and legal rights advocacy by NGOs.

Host country and other donors: The World Bank, the EU, and several bilateral donors are involved in Rule of Law activities for Russia. USAID also works closely with the Russian government, local governments, legal associations, and NGOs such as the Sakharov Center.

Beneficiaries: (1) Investors, both foreign and Russian; (2) Russian citizens desiring an open, transparent civil and commercial legal system; and (3) the legal profession all stand to benefit from activities that increase transparency and the soundness of new laws, and that ensure their even-handed application and enforcement.

Principal Contractors, Grantees, or Agencies: In addition to DOJ technical assistance and training, USAID works with ABA/CEELI, Chemonics and the National Judicial College and the Sakharov Center and Museum.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Percentage of people willing to use courts or alternative mechanisms in order to resolve disputes	10% (1995)	25% (1999)
Number of people visiting Sakharov Center and learning about their rights	1000 (1995)	5000 (1997)



TITLE: Social Benefits, 110-S003.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$2,700,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Improved effectiveness of selected social services and benefits.

USAID Role and Achievement to Date: USAID has provided technical assistance, training, and advice in several sectors, successfully demonstrating the benefits of a restructured, more market-oriented health system. In health working in oblasts and cities in Siberia and central Russia led to develop of sustainable working models for health care finance and service delivery. Fourteen women's reproductive health centers nationwide can serve up to 2.7 million couples. A Code of Ethics for Nurses was developed and approved by the Ministry of Health. An automated drug information database, including international drugs, has been established, and all-Russia drug information center networks will be initiated in the Far East, St. Petersburg, and two other sites. USAID grants to two U.S. pharmaceutical companies for the have led to the establishment commercial production has begun. "White papers" on reform of the national health care program supported the development of a national vision for health reform approved by the Prime Minister in August 1997.

In support of the Gore-Chernomyrdin Commission Health Committee, over 1200 children have had blood-lead screening; national conferences have been held on micronutrient malnutrition; and seminars on the early detection, prevention and control of major infectious and non-communicable diseases have been held. Reproductive health education activities are being continued with a focus on women and adolescents.

Description: New funding will be used to support (a) women's reproductive health with additional emphasis on maternal and neo-natal health; (b) HIV/AIDS (c) health reform, and (d) infectious diseases.

Host Country and Other Donors: Activities are closely coordinated with the World Bank, UNAIDS, the Soros Foundation, the British Know-How Fund and other donors. USAID normally pilot tests activities which are later embraced and expanded by other donors. The World Bank has made a \$64 million loan for the health sector and is considering an additional \$500 million over three years. The Soros Foundation is considering a \$ 100 million contribution over three years. The Ministry of Health considers USAID activities to be most important and are working closely with USAID in formulating policy. The Russian Federal Health Budget approved by the Ministry of Finance for 1996 represented 3.2 % of GDP.

Beneficiaries: Efforts to assure the sustainability of basic social services and benefits target users of the health care system, low-income populations, and members of recently privatized state farms. Achievement of this SO will result in more efficient and sustainable delivery of quality basic health.

Principal Contractors, Grantees, or Agencies: American International Health Alliance, Boston University, Lutheran Hospital, LaCrosse, American Medical Association, U.S. Department of Health and Human Services, AVSC, and others.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Hospital days per thousand	1,260 (1994)	675 (2000)
Hospital mortality rates in pilot oblasts	30 (1994)	13 (2000)
Range of abortions/1000 in target areas	65-102 (1993)	58-92 (1998)
Use of modern cost accounting and financial systems in pilot oblasts	0 facilities (1994)	40 facilities (2000)



TITLE: Environmental Health, 110-S003.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$12,000,000 Freedom Support Act

INITIAL OBLIGATION: FY 1992; **ESTIMATED COMPLETION DATE:** FY 2001

Purpose: Increased capacity to deal with environmental pollution as a threat to public health.

Background: The acuteness of environmental problems in Russia, deepened by the difficult socio-economic conditions, has led to a substantial deterioration in the health of its population and undermines its drive towards economic reform. Environmental degradation and reckless depletion of resources have led to significant losses in economic productivity.

USAID Role and Achievements to Date: USAID has developed an active environmental program to foster economic and social development in an environmentally sound manner and to prevent and reduce environmental threats to human health. During the past years, USAID's technical assistance has been concentrated in six pilot regions which were chosen as model programs. On the urban industrial side, the majority of the regional activities have been completed. On the "green" side, efforts in the Russian Far East will continue through the end of 1998. These programs continue to witness impressive impacts — impacts that are now being continued and sustained under the newly initiated dissemination and replication project — Replication of Lessons Learned (ROLL) Project, as well as folded into larger projects being initiated by other donors, the World Bank, and EBRD.

Pilot projects are now being replicated in other regions throughout Russia, and introduced at the national level. For example, the health risk assessment methodology tested in seven pilot cities resulted in the creation of a Federal Working Group which is developing an action plan to utilize this methodology on a national scale. In the fall of 1997, a federal decree was issued requiring the incorporation of risk assessment into environmental protection practices. In the area of lead pollution, USAID's assistance to develop a policy "Lead White Paper," led Prime Minister Chernomyrdin to commission the "Federally Targeted Program on Environmental and Health Lead Risk Reduction." Environmental policy and economics advice has led to the development of a Sustainable Development Strategy for the Novgorod Oblast — this is the first regional Sustainable Development Strategy in Russia. In the area of public participation, USAID's active grants programs for NGOs have led to clean-up projects, including drinking wells and city dumpsites, and public education projects, legal and legislative efforts, and information gathering and monitoring.

Description: USAID is now implementing the second phase of the Russian/American Environmental Cooperation Program, which is designed to ensure program sustainability by providing resources to Russian partners to replicate and disseminate lessons learned. This comprehensive new project will be the principal focus of USAID's future environmental assistance efforts in Russia through the year 2000. Since the recent initiation of the project, replication projects are underway in 32 different regions throughout Russia — thus greatly extending the impact of foreign assistance in the environment.

Replication activities currently extend to one-third of the administrative units in the Russian Federation, or 32 of the 89 oblasts, krais, and republics. USAID will also continue to be an active member of the Gore-Chernomyrdin Commission. To support the Commission's priority focus on the chlorofluorocarbon (CFC) production sector phase-out. USAID will contribute \$6 million, over three years, providing grant resources to the World Bank-managed "Special Initiative for Supplementary Funding to Complete Ozone Depleting Substances (ODS) Phase-Out in the Russian Federation." USAID resources will be used to carry out sub-projects consisting of a number of actions, including the provision of appropriate technical assistance aimed at phasing out the production of ODS in Russia. USAID will also support additional activities in the area of energy policy and forestry reform in support of President Clinton's Global Climate Change Initiative.

Host Country and Other Donors: USAID closely coordinates with host country government, non-government, and private sector counterparts at the national, regional, and local levels. USAID programs work with other donors and international financial institutions, particularly the World Bank and EBRD, to coordinate activities and to leverage additional resources. To date, USAID environmental assistance projects in Russia have leveraged at least \$370 million in environmental investments, with the potential for a total of \$400-500 million before the assistance program comes to an end.

Beneficiaries: The entire population of Russia will benefit if USAID-supported and other donor programs in this area have their intended impact. Large segments of the Russian citizenry are exposed to air and water pollution, and also live near unsafe nuclear plants. High pollution levels help to explain the marked decline in public health, which in turn has reduced people's ability to contribute to the country's economic and political renovation.

Principal Contractors, Grantees, or Agencies: USAID is working with the following: U.S. Environmental Protection Agency, U.S. Forest Service, U.S. Department of Interior, CH2 M Hill, Harvard Institute for International Development, ISAR, Institute for Sustainable Communities, Ecologically Sustainable Development, World Wildlife Fund/U.S., Center for International Environmental Law, and the Department of Energy.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Number of people using new environmental information networks and data	0 (1993)	2600 (1997)
Number of self-sustaining environmental NGOs	5 (1993)	25 (1997)



TURKEY

	FY 1997 Actual	FY 1998 Estimate	FY 1999 Request
Economic Support Funds	\$22,000,000	--	--
Development Assistance	\$4,400,000	\$4,000,000	\$4,000,000

Introduction.

Turkey is a close and valued ally of the United States. It occupies a strategic location between Eastern Europe, the Middle East and the New Independent States, and is a key member of NATO. Since 1980, Turkey has moved its formerly state-directed economy toward increasing reliance on market forces. Decentralization, export-led development, lower taxes, foreign investment, and privatization have been the basis for the new economic philosophy. Prior to FY 1998, Turkey received Economic Support Funds (ESF) for balance of payment support. In FY 1998, this assistance was discontinued.

The Development Challenge.

Present USAID assistance to Turkey supports a focused population assistance program, which is guided by a five-year strategy. The strategy calls for a rational transfer of activities to the Government of Turkey (GOT) and the private sector by the end of the century. The strategy supports the U.S. Embassy's interest in broadening the bilateral U.S.-Turkey relationship beyond military cooperation.

Population issues are developing into a major priority of the GOT, given that its current population of almost 61 million is expected to double by the year 2025. Surveys show that a majority of Turkish couples use less reliable, traditional family planning methods. Modern contraceptive prevalence, while increasing, is just approaching 35%, which is below countries like Bangladesh and Egypt. USAID donates approximately 26% of GOT contraceptive commodities. Recently, the Government of Turkey has demonstrated a sense of commitment to reducing the population growth rate. Together USAID and the GOT have developed a plan for enhancing the ability of private and public sectors to meet consumer contraceptive demand independent of USAID support. Thus in FY 1995 USAID began implementing this agreed upon plan for enhancing contraceptive availability as part of a 5-year phase down strategy ultimately promoting Turkish private and public resources to take USAID's place as the main provider.

The USG-approved Population Strategy for Turkey 1995-99 contemplates the following

activities. The USAID program is strengthening the GOT policy environment, forging ties among private firms and facilitating increased non-governmental organization (NGO) participation. The program works to train counselors and service providers to improve their quality of services and depth of knowledge. It seeks to expand access to services by integrating them into existing health care delivery networks. Finally, on a decreasing scale, USAID provides funding for contraceptive commodities.

The program, implemented by a number of U.S. Cooperating Agencies, has seen many gains. Family planning training has been integrated into eight university teaching programs, midwifery and nursing schools, as well as the Ministry of Health (MOH) in-service family planning sites. The MOH adopted the first-ever national family planning guidelines and operates model family planning clinics throughout the country. The MOH and social security organization agreed to begin purchasing contraceptives. The USG is working with the cooperating agencies to promote more synergistic implementation and sustainable impacts. The strategy, which includes a five-year phase down approach, will provide important guidance and impetus for results.

Other Donors.

The UN Fund for Population Activities and the International Planned Parenthood Federation support activities in less developed areas and with indigenous organizations respectively. The Japanese International Cooperating Agency plays a limited role in funding the establishment of a high-tech studio for the development of audio-visual materials for the MOH. In addition, the European Union and the German Technical Cooperation Assistance have recently committed small grants to local non-governmental organizations (NGOs) to carry out small-scale family planning service delivery projects.

The International Monetary Fund (IMF) and World Bank have provided standby and project loans to the GOT to encourage and reward major economic reform measures. These resources, in conjunction with those provided by other donors and private lenders, enable Turkey to continue servicing its large debt, and help support its economic reform program and structural adjustment efforts.

FY 1999 Program.

As a result of the country program assessment of October 1997, FY 1999 funding will concentrate on: 1) assisting in the implementation of the national strategy for family planning; 2) full achievement of contraceptive self-reliance; 3) expanding private sector involvement in provision of services; 4) integrating the provision of family planning into hospital-based services, including postpartum services; and 5) continuing to improve the quality of family planning services.

In 1998 a Demographic and Health Survey (DHS) will have been undertaken to assist in determining progress since the 1993 DHS. Findings are expected to be available by November

1998 and will further inform and guide USAID's FY 1999 program.

TURKEY
FY 1998 PROGRAM SUMMARY
(in thousands of dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Crosscutting / Special Initiatives	Total
Social Benefits			4,000 a/		4,000
Cross-cutting / Special Initiatives					
TOTAL			4,000 a/		4,000

a/ Development Assistance



TITLE: Social Benefits, 000-S003.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: \$4,000,000 DA

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 1999

Purpose: Improved sustainability of social benefits and services.

USAID Role and Achievements to Date: USAID has provided funds for population programs in Turkey since the 1960s. Today's USAID assistance focuses on sustaining a reduced rate of population growth and a financially sustainable program, able to continue in the absence of donor resources. To achieve this end, USAID and the U.S. Embassy in Ankara developed a five-year strategy for 1995-1999. According to the strategy, the assistance budget will be phased down significantly by the end of 1999. The program focuses on policy, management development, training, communication and service delivery. Twenty-six percent of the 1997 USAID population assistance budget was earmarked for contraceptive commodities for the public sector. The strategy also includes a phase-out plan for commodities, whereby the GOT will assume full responsibility for procurement of contraceptives by the year 1999. The convergence of a number of factors have created ideal conditions for impact in Turkey. The most salient factor is the GOT's elevated sense of commitment to population and family planning issues and the willingness to develop the role of the commercial and non-government sectors — an endeavor seen to promote program sustainability. The GOT, commercial sector, and non-governmental organizations have all requested technical assistance in reaching their individual and mutual goals — contributing to the increasingly productive partnership between USAID and Turkey. The coordination of the program rests with a Joint Programming Team comprised of USAID/Washington and U.S. Embassy representatives.

The program, implemented by a number of U.S. Cooperating Agencies, has seen many gains. Family planning training has been integrated into eight university teaching programs, midwifery and nursing schools, as well as the Ministry of Health (MOH) in-service family planning sites. The MOH adopted the first-ever national family planning guidelines and operates model family planning clinics throughout the country. The MOH and social security organization agreed to begin purchasing contraceptives. The USG is working with the cooperating agencies to promote more synergistic implementation and sustainable impacts.

Description: USAID's activities focus on increasing the availability and effective use of quality family planning and reproductive health services; improving Turkey's self-reliance in family planning and reproductive health by enhancing the public and private sector ability to meet consumer demand for these services independent of USAID support. There are three USAID strategic approaches for achieving the program's strategic objectives: 1. Strengthen policy and GOT budgetary support for the family planning program; 2. Improve the quality of family planning and reproductive health services in the public and private sectors; 3. Expand access to family planning and reproductive health services in the public and private sectors.

Host Country and Other Donors: Turkey's Ministry of Health, the Social Insurance Organization

(SSK), NGOs and the commercial sector collaborate with USAID programs. With USAID as the lead donor both in financial and programmatic terms of the program, several other donors contribute to the program. The United Nations (UN) endorses an integrated approach to improve maternal, child and family planning services and focuses on undeserved populations, covering the most remote 28 provinces in eastern and southeastern Turkey. The International Planned Parenthood Federation (IPPF) supports the Family Planning Association of Turkey (FPAT), its local affiliate, in supporting various small projects, mostly educational activities, aimed to religious leaders, adolescents, men, and policy-makers. The Japanese International Cooperating Agency (JICA) plays a limited role, in funding the establishment of a high-tech studio for the development of audio-visual materials for the MOH. In addition, The European Union (EU) and the German Technical Cooperation Assistance (GTZ), have recently committed small grants to local NGOs to carry out small scale family planning service delivery projects. Finally, the World Bank supports a large five-year health sector loan; however, it does not focus on population and- family planning,

B beneficiaries: This effort seeks to directly benefit women of reproductive age, their husbands and children through helping them meet their desired family size and improving the health status of women and children. Indirectly, this effort seeks to benefit the entire population of Turkey by reducing the population pressures on the economy, environment, housing and social services.

Principal Contractors, Grantees, or Agencies: Cooperating groups are: the Johns Hopkins Program for International Education in Reproductive Health (JHPIEGO), the Johns Hopkins Population Communication Services (PCS), the Futures Group International through the Social Marketing Project (SOMARC) and the Policy Project, Access to Voluntary and Safe Contraception (AVSC) International, and Management for Sciences for Health through the Family Planning Management Development Project (FPMD).

Major Results Indicators:*

	<u>Baseline</u>	<u>Target</u>
National strategic plan for family planning	None (1994)	Implemented (1999)
Modern contraceptive prevalence	35% (1993)	45% (1999)
Discontinuation rates of modern contraceptives	55% (1993)	30% (1999)
Abortion rates (per 100 pregnancies)	19 (1993)	reduced (1999)
Family planning line item in MOH annual budget	No (1994)	Yes (1999)
Percentage of modern contraceptives provided by private sector	25% (1996)	45% (1999)

*Progress on many of these indicators will be provided by the Demographic and Health Survey (DHS) to be undertaken during 1998. The last DHS was conducted in 1993.



UKRAINE

	FY 1997	FY 1998	FY 1999
	Actual	Estimate	Request
Freedom Support Act	\$225,100,000	\$225,000,000	\$223,500,000

Introduction.

The United States has an important stake in Ukraine's successful transition to an independent, stable democracy. A strong Ukraine will enhance regional stability by being able to resist threats to its independence and that of its neighbors. An economically prosperous Ukraine can be an important commercial partner, providing a sizeable market for U.S. goods and services. Economic success will also enable Ukraine to afford technology that eases critical global problems such as environmental degradation. As a regional power, a peaceful and democratic Ukraine can be a significant partner in the effort to eradicate terrorism, conflict and disease. It can actively support important American values, such as basic freedoms, respect for human rights, and humanitarian causes.

The Development Challenge.

The fundamental development challenge for Ukraine's leaders is to muster the political will and bureaucratic skill to implement comprehensive economic reform. Although much remains to be done, Ukraine can take justifiable credit for a number of important advances achieved to date. Inflation has been reined in and remains low (10.2% for 1997), the budget deficit has been reduced, the decline in GDP has decreased, and the new currency has remained remarkably stable. With the 1996 enactment of a new Constitution, fundamental rights and protections that will form the basis of a stable and transparent legal system have been established. Beyond that, the prospects for deeper reform to create an environment conducive to private enterprise development and investment are uncertain, both in terms of pace and parameters. President Kuchma continues to declare his commitment to radical economic reform, but to date there has been little action. Ukraine's ultimate path will no doubt be influenced by worsening economic and social conditions, as well as upcoming Parliamentary and Presidential elections. To date, the President's economic reform program has met with considerable resistance from the Parliament, a situation which may well worsen if upcoming elections result in a strengthened opposition. Another important factor that will influence Ukraine's course of action is the current competitive state of world financial markets. To attract urgently needed resources, Ukraine will have to inspire confidence in its economic outlook, which will require extraordinary measures.

The social cost of the transition is staggering. It is among the most potentially destabilizing forces in Ukraine, and exacerbated by the government's failure to reform the social infrastructure. The

cost of living continues to rise above the means of average Ukrainians, whose buying power has plummeted over the past six years. Incomes are falling as the economy deteriorates. Pension reform is being studied, but it will be some time before a new system will be operational. A full array of targeted subsidies for the neediest is not yet in place, which means that the 54% of the population that falls below the poverty level is without an effective social safety net. Life expectancy continues to decrease, and the health care system, in need of wholesale structural change, is not able to meet a number of basic needs such as vaccines and drugs. It is generally agreed that comprehensive social sector reform is essential to ensuring the sustainability of reforms that will lead to economic growth, but there is no consensus within the government on the scope and content of such reform. The underlying concern is that if the Government of Ukraine (GOU) does not take steps to address these social problems, popular support for market reform will deteriorate along with the chance for a successful transition.

Corruption is a growing and much publicized concern, both in terms of the viability of good governance and successful business development. Pressure is building within Ukraine and the United States to do something about it. On the U.S. side, involvement is contemplated with specific reference to protecting U.S. business interests in Ukraine. Corrupt practices and bureaucratic red tape overwhelm most American firms trying to operate there. With Ukrainian sights set squarely on increasing foreign investment, neither side can ignore this problem any longer. The U.S. is looking at options to assist Ukraine with anti-corruption measures, including ongoing support for deregulation, legal reform and other efforts to create an appropriate enabling environment for private enterprise development and investment.

There are no doubt limits as to how much sustainable reform can be accomplished in the absence of an appropriate policy environment. However, given the difficult climate in Ukraine at present, USAID has an impressive record of achievement to date of measures that have advanced reform and are paving the way for progress in the second stage of reform. The mass privatization and small-scale privatization programs are largely completed, with over 7,000 medium and large enterprises and 42,000 small enterprises privatized. Condominium associations covering 39,000 families in 43 cities have been or are being registered and contracts for residential building maintenance services for more than 140,000 families in 26 cities have been or are being negotiated with private firms. Competitive privatization of urban land parcels has been implemented in four cities and is being replicated throughout Ukraine. The National Bank of Ukraine's Interbank Payments System is fully functioning, with technical execution of payments taking minutes rather than weeks. Six farm service centers, established with U.S. private sector participation, are providing U.S. technology and inputs, as well as a private alternative to state systems for marketing output. Ukraine has made significant gains in power sector reform. The energy wholesale market is operating live, the generation system has been demonopolized into four joint stock companies, with 27 local joint stock electricity companies to distribute and sell electricity to consumers and a national electricity regulatory commission created to oversee fair competition and ensure reasonable tariffs. Modernization of the Lviv water utility's water distribution system has resulted in improved water service for over 100,000 people. USAID support to municipal governments has led to their reducing operating

costs, increasing revenue and improving services to citizens. About six million families who could otherwise not afford increases in housing and utility costs have received subsidies for part of the cost.

These and other examples demonstrate that U.S. assistance has been instrumental in promoting sustainable reform. Given strong U.S. interests in an independent Ukraine, it is essential that we continue to provide adequate support in strategic areas, particularly as the economy continues to deteriorate. With so much at stake and such tremendous economic potential, the USAID role in promoting economic, democratic and social reform becomes all the more important during this uncertain period.

Other Donors.

The United States is the largest bilateral donor to Ukraine. Other major donors include the World Bank, European Union, European Bank for Reconstruction and Development, United Kingdom, Germany and Canada. USAID maintains close contact with the major multilateral and bilateral donors working in Ukraine to ensure that foreign technical assistance is mutually reinforcing to the extent possible. There is particularly strong collaboration with World Bank and IMF lending programs, which contribute substantial leverage to USAID technical assistance programs by virtue of their considerable financial incentive to proceed with difficult reforms. Notable examples of effective donor coordination include completion of the mass privatization program, substantial restructuring of the energy sector, and G-7 work toward the closure of the Chernobyl Nuclear Power Plant.

FY 1999 Program.

In FY 1999, the USAID program in Ukraine will continue to assist in the fundamental restructuring of Ukraine's economic and political system and support the efforts of the government to alleviate the privations imposed on the most vulnerable members of society during the economic transition. Under the economic restructuring and growth goal, USAID is requesting FY 1999 funding for the following strategic objectives: increased soundness of fiscal policies and fiscal management practices; accelerated development and growth of private enterprises; a more competitive and market-responsive private financial sector; a more economically sound and environmentally sustainable energy system; and increased environmental management capacity to support sustainable economic growth. A major emphasis in all these objectives is the creation of a transparent, rule-of-law based legal and regulatory framework which must exist for a market-based economy to flourish. Energy and environmental programs will also help reduce Ukraine's role in global climate change issues. A new U.S.-sponsored initiative involving Ukrainian cooperation with government and private institutions in Poland presents a promising opportunity for Ukraine to benefit from Poland's considerable successes, with an initial focus on business development.

Under the democratic transition goal, USAID is requesting FY 1999 funding for the following strategic objectives: increased, better-informed citizens' participation in political and economic decision-making; legal systems that better support democratic processes and market reforms; and more effective, responsible, and accountable local government. Expected achievements include a more efficient and capable judiciary and legal community; improved capacity of the Ukraine Parliament; an active, strong civil society; an increase in the amount of objective news and information available to citizens; a stronger election process; adoption of new civil, civil procedure, criminal, and criminal procedure codes; greater debate and media coverage throughout Ukraine on the role of women in Ukrainian society; and improved local government management and administrative capacity.

Under the social stabilization goal, USAID is requesting FY 1999 funding for one strategic objective: improved sustainability of social benefits and services. USAID will focus its efforts on helping Ukraine mend its social safety net in such areas as health care financing, pension reform, unemployment insurance and targeted benefits. Particular attention will be paid to strengthening NGOs to provide services that government cannot, and to influence public policy on behalf of citizens' interests.

Under crosscutting and special initiatives, USAID requests FY 1999 funding in four areas: training and exchanges; improved public health delivery; women's initiatives; and Eurasia Foundation. USAID sponsors training and exchanges between American and Ukrainian organizations in a range of sectors that directly complement and support USAID technical assistance programs. USAID's overall goal in health is to improve the quality and efficiency of care by making health services more available to the neediest people, and fiscally sustainable for the country, both during and after the country's economic transition. As part of the effort to relieve the burden on the fragile health care system and better assure a reliable, healthy workforce that can be mobilized under a revitalized economy, USAID will assist Ukraine with prevention strategies to reduce detrimental lifestyle choices with significant negative impacts on Ukrainian society, such as smoking, alcohol and drug abuse, domestic violence and poor nutrition. In addition, USAID will look at increasing the emphasis on primary health care, improving pre- and post-natal care to reduce low birth weight and women's and children's morbidity, HIV/AIDs prevention and self-care of chronic illness. This "healthy community" thrust will complement USAID's ongoing programs in health care financing, medical partnerships, women's health, and infectious disease control, including tuberculosis.

USAID-sponsored activities under the special initiatives rubric are increasing women's participation and influence in the economic and political life of Ukraine through entrepreneurship and leadership training, support to women's credit unions and strengthening NGOs that influence public policy on women's issues and provide a range of services to women. USAID activities are also improving the quality of Women's lives by addressing women's health needs and by supporting organizations that are working to prevent and treat violence against women. Also of significance is the Eurasia Foundation's small grants program which complements USAID's

larger transition program, specifically in the areas of economic and government reform, small business lending, nonprofit sector support, media and communications.

UKRAINE
FY 1999 PROGRAM SUMMARY*
(in Thousands of Dollars)

Strategic Objectives	Economic Restructuring	Democratic Transition	Social Stabilization	Crosscutting / Special Initiatives	Total
Privatization					
Fiscal Reform	6,100				6,100
Private Enterprise	40,300				40,300
Financial Reform	15,500				15,500
Energy	44,050				44,050
Environmental Management	4,500				4,500
Citizens' Participation		5,000			5,000
Legal Systems		2,500			2,500
Local Government		5,500			5,500
Crises					
Social Benefits			9,900		9,900
Environmental Health					
Cross-cutting / Special Initiatives				90,160	90,150
TOTAL	110,450	13,000	9,900	90,150	223,500

*Freedom Support Act (FSA) funds



TITLE: Fiscal Reform, 110-S001.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$6,100,000 Freedom Support Act

INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 2004

Purpose: Increased soundness of fiscal policies/fiscal management practices.

USAID Role and Achievements to Date: USAID's fiscal reform program aims to make Ukraine's tax and budget system more comprehensive, systematic and transparent so that informed policy level decisions will be made and implemented and the implications of these decisions will be clear to all. The intent is to strengthen the fiscal sector and the institutions involved with it, including the Ministry of Finance (MOF), Ministry of Economy (MOE), relevant committees of the Parliament (Rada) and units of local government.

With the assistance of USAID and Treasury advisors, value-added and enterprise profit tax laws have been enacted, and personal income and excise tax laws are drafted and pending before the Rada. The State Tax Administration (STA) has moved to implement the new laws within a very tight time frame, including issuance of taxpayer identification numbers; preparation of forms, instructions and informational materials; and development of computerized tax information systems. The National Tax Training Center has opened, and courses are being developed to train tax collection officials in new laws and tax enforcement techniques. The MOF has adopted a new budget classification system and initiated procedures aimed at achieving a realistic 1998 budget. A comprehensive budget system law covering preparation, adoption, and execution of the budget has been drafted and is under consideration in the Rada. Centralized Treasury operations are finally underway, with prospects for real progress. A relational database for budget information has been developed for MOF use, along with time series for key budget data going back to 1992. Revenue forecasting models have been developed for the MOF Budget Department. A Fiscal Analysis Unit has been established for the Rada and analyses prepared by the Unit have been used by leading members of the Rada in debates on proposed tax legislation. An intergovernmental fiscal model has been developed for estimating and analyzing alternative financing arrangements between central and local governments; staff of both the MOF and the Rada are being trained to utilize and maintain this model. The Government of Ukraine (GOU) has committed to reforming public administration at the central and, eventually, local levels, including reducing the number of Cabinet ministries, defining clear lines of authority, reforming the central "apparatus," and creating a civil service system. A functional review of the MOF and MOE is underway, with a view to rationalizing and consolidating their various economic policy functions.

Description: USAID's fiscal program focuses on (1) advising on macroeconomic policy and analysis; (2) improving tax law, policy and administration, (3) developing techniques and procedures for budget preparation, analysis and execution, (4) improving the system of intergovernmental finance, and (5) strengthening the fiscal management capacity of economic policy institutions, particularly the MOF, but also the STA, MOE, State Statistics Committee

and the relevant committees of the Parliament (Rada), to enable them to function more effectively within a democratic system and a market economy. In ail of these activities, emphasis is placed on working with local counterparts to ensure that skills ere transferred and work products are appropriate to the Ukrainian situation.

Host Country and Other Donors: USAID activities are coordinated with the IMF, the World Bank, the EU, German Technical Assistance, and the Soros-Asland Group.

Beneficiaries: The MOF, the STA and the Rada's tax and budget committees are the immediate beneficiaries, and by extension the taxpayers and voters of Ukraine. Entrepreneurs will benefit as more comprehensible and transparent fiscal systems are established.

Principal Contractors, Grantees, or Agencies: USAID activities are implemented by KPMG/Barents and Harvard Institute of International Development. In addition, USAID-funded advisors from the U.S. Department of Treasury are advising counterparts in the GOU.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
GOU meets IMF deficit target	No (1995)	Yes (1999)
Reduced number of budget revisions due to inaccurate budget forecasts	3 (1995)	1 (1999)
Number of taxpayers included in the taxpayer identification system (millions)	15.6 (1996)	30 (1999)
Fiscal reform legislation drafted/submitted/ passed/enforced	Drafted (1995)	Enforced (1999)



TITLE: Private Enterprise, 110-S001.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$40,300,000 Freedom Support Act

INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: Accelerated development and growth of private enterprises.

USAID Role and Achievements to Date: Business development is essential to create jobs, generate income, expand the availability of goods and services, increase tax revenues and achieve other economic benefits, especially at the local level. However, Ukrainian entrepreneurs lack market-oriented business skills and support services. The legal, regulatory and local political environment does not yet encourage the growth of competitive businesses. Agriculture — comprising nearly 30% of GDP and 2.0% of employment — is critical to creating a successful market economy. Overall, the economy is marked by a high level of insolvency, and Ukraine must continue its good progress toward implementing a bankruptcy system that provides for reorganization of enterprises. Ukraine must also continue developing a framework for institutionalizing rules regarding property relations and a system for enforcement of contracts. Of key importance to Ukraine's critical accession to the World Trade Organization (WTO) will be to ratify and implement legislation conforming to basic WTO standards.

Having reached its objective of assisting Ukraine to privatize eight thousand medium and large state enterprises, USAID is focusing substantial resources on the development and growth of private enterprises in Ukraine. Major activity areas under this objective include: small and medium enterprise (SME) development; legal, regulatory and policy reform to improve the overall environment for business; enterprise restructuring; and improved private sector agricultural production.

To date, the 12 USAID-supported business service centers have provided advice, training and information to over 10,000 businesses. Proposed and recently enacted changes to the principal tax laws affecting SMEs will help to promote SME development within the official economy. Simplified, forms for small businesses are in preparation for both the value-added tax and the enterprise profits tax, along with clear informational materials. USAID is also assisting the State Tax Administration (STA) with training in understanding and auditing tax returns based on international accounting standards (IAS). Over 1,000 Ukrainian accountants and auditors are being trained in IAS, reporting and managerial accounting, and a national certification program has been established. USAID is also supporting several programs in small business lending, including the Western NIS Enterprise Fund, Eurasia Foundation, credit unions and a new microenterprise credit facility.

USAID has elicited the cooperation of the Highest Arbitration Court of Ukraine (HAC) on bankruptcy law reform and intensive training to over 100 arbitration Court judges has resulted in better bankruptcy administration. With the enactment of amendments to the pledge law, provision for a collateral registry for pledges of movable property has been made, creating e

firm basis for secured lending in Ukraine. With the help of USAID assistance, the Anti-Monopoly Committee (AMC) has moved aggressively to develop necessary statutes, internal and investigative procedures, and enforcement mechanisms, gaining international recognition for its progress. Also as a result of USAID assistance, the accession process to the WTO is well advanced. USAID also has addressed the need for commercial law reform with assistance to the drafters of the proposed Civil Code of Ukraine, which will establish the overall framework for civil law in Ukraine. USAID has also initiated a program of deregulatory reform as well as a program to enhance the enforcement of contracts and judgments.

In agriculture, twelve Farm Service Centers have been established with strong U.S. private sector participation, providing an alternative to state-run input supply and marketing channels. Twenty more such centers are planned, with a revised focus on serving small, private farmers. Development of a private farm finance company has been completed, and a commercially driven, private sector EXIM credit program is now in development, which will make seasonal and medium-term credit available for input purchases. The GOU has agreed to rapidly privatize more than three-quarters of the grain elevator and storage industry. Nine commodity exchanges, as well as an exchange association, are in operation, and the GOU has announced its intent to make future grain procurement through the exchanges rather than the old state order system. Restructuring of collective farms and land titling work has been carried out on farms in 13 oblasts and will be expanded to six more, for a total of 19 out of 25 oblasts.

The West NIS Enterprise Fund has booked close to \$26 million in investments to date, with another \$19 million committed. Some of the Fund's companies are into their second year of operation and beginning to show impressive results. The Eurasia Foundation funded ten loans through its initial small business loan program and has negotiated a program agreement with a new bank to continue the loan program.

Description: USAID is promoting entrepreneurship by assisting Ukraine with (1) tax and regulatory changes to alleviate the burden on SMEs while encouraging compliance; (2) the adoption of IAS; (3) the adoption of deregulation measures; (4) business skill development, including a focus on the sustainability of the USAID-supported Business Services Centers and a broad-based business education program; (5) small business incubators; (6) financing, including such programs as small business lending, microenterprise credit, credit union development, leasing and franchising; and (7) the establishment of a local and national mandate for SME support, including a high-level initiative that brings Poland's experience to bear on Ukraine's SME development. USAID is also assisting local business advisory organizations in their efforts to improve the business environment and, in collaboration with the Ministry of Economy, has established a National SME Policy Task Force to develop effective and productive SME support structures on the national and regional levels. Other areas of emphasis include legal reform to support a market economy, including a commercial legal framework, accession to the WTO, and bankruptcy and financial restructuring. In addition to a supportive overall business environment, the successful restructuring of privatized enterprises is also key to the growth of Ukraine's economy. USAID assistance is beginning to address such post-privatization issues as

consolidation of ownership; protecting ownership rights; introduction of restructuring tools, financial resources and incentives; and the facilitation of bankruptcy to restructure or liquidate the firm in the event of insolvency. USAID is also supporting efforts to privatize land under enterprises. In agriculture, the USAID program involves a range of land and enterprise privatization, input supply, marketing, finance, private farm support and related policy reform interventions.

Host Country and Other Donors: GOU participants include the Deputy Prime Minister for the Economy, the State Entrepreneurship Development Committee, the State Property Fund, Committees for Land Resources and Urban Development, the State Customs Committee, the Ministry of the Agro-Industrial Complex and the Interministerial Commission for Agrarian Reform. Private Ukrainian businesses are major development partners, as well as beneficiaries of assistance. The British Know-How Fund, the Germans, the European Union, and the EBRD also provide assistance in agriculture and enterprise development.

Beneficiaries: Proprietors and employees of micro, small and medium-sized businesses benefit from the various firm-level assistance activities and policy/regulatory reforms described above. The business community at large will benefit from bankruptcy reform and the introduction of restructuring methods. All participants in Ukraine's international trade will benefit from WTO accession. Producers and consumers benefit from increased agricultural production and related processing and distribution through increased incomes and lower food prices.

Principal Contractors, Grantees, or Agencies: Contractors and grantees include: the Alliance, DAI, IRIS, KPMG/Barents, Sibley International, RONCO, the Recovery Group, Chemonics, Price Waterhouse, the U.S. Department of Commerce, the U.S. Department of Agriculture, Iowa State University, Citizens Network for Foreign Affairs, Land O' Lakes, ACDI, VOCA, the World Council of Credit Unions, the Eurasia Foundation, and the International Finance Corporation.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Growth of legally registered firms	240,000 (1996)	20% increase (1999)
Number of businesses assisted through networks	400 (1996)	1200/year (1997–99)
Private joint ventures in agricultural services and processing	4 (1996)	34 (1999)
Percent increase in yields from land areas using new technologies	30% (1996)	50% (1999)
Number of foreign joint ventures	50 (1995)	700 (1999)
Anti-monopoly enforcement: cases decided in favor of preserving competition	31 (1995)	120 (1999)
Collective farms restructured/rationalized	0 (1995)	3,000 (1999)
Private housing maintenance contracts	4 (1995)	100 (1999)



TITLE: Financial Reform, 110-S001.4

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999 \$15,500,000 Freedom Support Act

INITIAL OBLIGATION: FY 1994; **ESTIMATED COMPLETION DATE:** FY 2004

Purpose: A more competitive and market-responsive private financial sector.

USAID Role and Achievements to Date: Although the contours of a market-based financial system are beginning to form, the fundamental infrastructure remains weak. Because Ukraine is rapidly being integrated into international financial markets, there is a danger of a systemic financial crisis. As seen in all too many countries, this in turn can adversely impact the real economy and jeopardize Ukraine's fragile and nascent economic recovery.

USAID's financial sector program in Ukraine focuses on (1) banking (2) government securities, (3) capital markets development and (3) collateral law reform and registry development in order to build the infrastructure to support secured lending. USAID is assisting the National Bank of Ukraine (NBU) to develop professional capacity to exercise its prudential regulatory responsibilities, thus promoting a safe and sound market-oriented banking system. A more efficient government securities market will promote more effective monetary policy operations while helping to build confidence among foreign and local investors in Ukraine's economy. USAID is also helping to transfer commercial risk-based banking skills to Ukrainian banks and to promote the use of good banking practices. USAID's capital markets development program is assisting Ukraine to put in place the fundamental elements of securities market operations and regulatory oversight. The first phase of the collateral program succeeded with the enactment in November 1997 of an amendment to the Law on Pledge, providing for a State Pledge Registry for movable property. The program will now proceed with implementation of the Registry, as required by the new law to be established by July 1, 1998.

With the help of USAID assistance, Ukraine has one of the most efficient electronic funds transfer systems in the region. As accounting is crucial for the efficient allocation of resources in a market economy in both and public and private sectors, USAID supported the formation of the Ukrainian Federation of Professional Accountants and Auditors, which was approved as a self-regulatory organization for accounting and audit professionals. This organization, the first association of its kind in the former Soviet Union, now has over 1,400 members, 18 fully operational regional chapters throughout Ukraine and six standing committees. USAID-funded banker training, conducted by the National Bank of Ukraine's Training Center and by the International Management Institute of Kiev, has provided innovative and cost effective training in finance, accounting and management to 3,100 Ukrainians. The Securities Commission was fully empowered to oversee capital markets activities and completed its first enforcement case, sanctioning the offending investment company for trading its own securities and not disclosing required information on its activities.

Description: USAID's financial sector program provides assistance in (1) bank supervision at the NBU, including support for on-site supervision capacity, bank rehabilitation, and support for the development of the legal department; (2) international accounting standards conversion at the NBU, including strengthening internal controls and audit procedures; (3) banker training, focusing on the self-sustainability of the banking school and the initiation of a regional training program to extend the program to banks outside the capital; (4) government securities markets, including support for implementation for the National Depository Law; (5) establishment of a corporate disclosure and corporate governance program for all large open joint stock companies; (6) initiation of securities commission enforcement program; and (7) nationwide expansion of the over-the-counter trading system and support to key institutions of the securities market: Broker-Dealer Association, Inter-regional Securities Union Depository and the Professional Association of Registrars and Depositories.

Host Country and Other Donors: Financial reform activities are coordinated with the EU, the World Bank, the IMF, the British Know-How Fund, and the GOU, principally through the National Bank of Ukraine and the Securities and Stock Market State Commission.

Beneficiaries: The entire private financial sector will benefit directly from these activities, as will, by extension, enterprises and households who need access to finance.

Principal Contractors, Grantees, or Agencies: USAID's activities in financial reform are implemented by KPMG-Barents, IBTCI, Financial Markets International, Price Waterhouse, IRIS and Financial Service Volunteer Corps and the Ukrainian Center for Certificate Auctions.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Banking sector investment in private sector and households (% of total bank credits)	36% (1995)	55% (1999)
Securities market capital as a % of GDP	.005% (1995)	.050% (1999)
Assets of ten largest private banks as a % of assets of state-owned banks	35% (1995)	68% (1999)



TITLE: Energy, 110-9001.5

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$44 050,000 Freedom Support Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: Economically sound/environmentally sustainable energy system.

USAID Role and Achievements to Date: USAID views the financial viability of the energy sector as a key element to Ukraine's economic transition. Ukraine depends heavily on foreign sources for fuel, particularly Russia, importing more than 80% of its gas and more than 95% of its oil. At the same time, Ukraine has also had to import large amounts of coal, despite its own sizeable deposits, because of poor delivered quality and inefficient distribution mechanisms. Nuclear power holds great potential, but is problematic due to the Chernobyl disaster. Ukraine has built up over \$1.7 billion in energy debts since independence, financed almost entirely through credits from international donors. Ukraine is also a major contributor to global climate change.

USAID's energy program for Ukraine focuses on (1) energy sector restructuring, including power, coal, oil and gas; (2) improving energy efficiency of industrial enterprises through energy audits and adoption of low-cost/no-cost efficiency measures; (3) improving energy efficiency and reducing costs in the municipal sector; (4) increasing public awareness of the country's energy issues and problems; (5) addressing the social and economic impacts of the closure of Chernobyl; (6) promoting private sector development through demand-side management programs; (7) developing private Ukrainian energy service companies (ESCOs); and (8) providing opportunities for alternative energy sources. Success in these areas will help address Ukraine's role in global climate change.

With USAID assistance for power sector restructuring, Ukraine has (1) divided its original integrated regional monopolies into four thermal, one nuclear, and two hydro-electric generating companies (GENCOs); a high-voltage network enterprise, and 27 local electricity distribution companies (LECs); enacted the Energomarket Members Agreement on power market rules, and appointed a Board of Directors to administer the technical market operation and market funds distribution; (2) created an independent regulator, the National Electricity Regulatory Commission (NERC), to oversee wholesale market operation and set market-based electricity tariffs; (3) initiated the wholesale market through the active bidding of generating companies; and (4) started a transparent, market-based system for power sector funds allocation in accordance with Energomarket Rules and a Market Funds Procedure. The GOU has also taken vigorous measures to address financial problems and has agreed to develop a comprehensive plan for financial recovery centered upon privatization.

The Ukrainian power utilities partnership program has been viewed as a flagship program, successfully delivering the best of America's expertise in technical and commercial operation in

the power sector. These partnerships have proved to be extremely successful, with reforms in metering, billing, collections, business orientation, and preparation for privatization.

USAID's assistance to promote energy efficiency has resulted in a projected 31.2 million cubic meters reduced annual natural gas usage and total annual savings of more than \$5 million among six enterprises. As part of the Lviv vodokanal project to decrease operating costs and improve water service, the installation of energy efficient pumps has resulted in a 75% increase in water service.

Description: USAID assistance to Ukraine's power sector is aimed at facilitating the financial recovery of the power industry. By agreement with the GOU, World Bank and other donors, USAID focuses on a number of activities, including (1) providing technical assistance to the newly-established Inter-ministerial Work Group on Power Sector Financial Recovery; (2) working with selected local electricity distribution companies to increase cash collections and to prepare for privatization; (3) working with power generating companies on restructuring mechanisms to develop optional arrangements for current supply and debt offsets with coal suppliers; (4) providing an independent expert economic analysis of operation at fossil-fuel power plants to identify measures to reduce operation and maintenance expenses; (5) working on market funds procedures to ensure that all forms of payments should be counted, documented and disbursed to market members; (6) strengthening Energomarket Board functions administratively, as well as promote interaction with work groups and the NERC; (7) working with the National Dispatch Center to ensure that it plays a leading role in the technical operation of the wholesale market and bringing scheduling, dispatch, and settlement of the GENCOs' bids in accordance with the Energomarket Rules; (8) assisting the NERC to become more proficient in its role of regulator for the power sector, with additional assistance in the area of oil and gas regulation to help the NERC meet the challenges given its new regulatory authorities in oil and gas.

Other activities in which USAID is engaged include (1) training for the Ministry of Energy including an MBA program for managers in the electricity sector, with expansion into the oil and gas sectors in the near future; (2) a utility partnerships program, which will be enlarged and also expanded to include partnerships in the oil and gas sector; (3) an alternative fuel center to develop coal-bed methane as a commercially viable product; (4) assistance in preparation of business plans to attract investments for the most productive coal mines; (5) assistance to develop a legal and regulatory framework for the oil and gas sectors, as well as assistance with private and strategic investment in gas transit systems and market development; and, (6) energy efficiency, including several activities in demand-side management, industrial energy efficiency resulting in reduction of natural gas usage and monetary savings in industrial plants, industrial energy audits and development of eight private energy service companies.

A sizable portion of resources is also allocated to Chernobyl. USAID has had a major role in designing an action plan to ameliorate the social impact on Ukraine of the Chernobyl's facility closure. USAID is also rendering support to ensure an ecologically sound sarcophagus at

Chernobyl, safety parameter display systems, and increased nuclear energy efficiency. Other implementers in this effort include the U.S. Department of Energy and the EBRD.

Host Country and Other Donors: USAID works with the Ministry of Power and Electrification of Ukraine, the State Committee on Energy Policy and Energy Conservation, the Ministry of Industrial Policy, and regional administration in the Lviv, Dnipropetrovsk, and Donetsk Oblasts, and coordinates with the activities of the British Know-How Fund, the EU, the World Bank, the European Bank for Reconstruction and Development, and the EU. The governments of Switzerland, the Netherlands, Canada and Japan also provide energy assistance.

Beneficiaries: USAID energy reform assistance benefits newly corporatized electric generating and distribution companies, the NERC, industrial and municipal energy users and the coal industry.

Principal Contractors, Grantees, or Agencies: Hagler-Bailly and Partners in Economic Reform (PIER) are USAID's energy activities implementors, with support from USAID-funded advisors from the U.S. Department of Energy. Energy efficiency projects are implemented by Burns & Roe Enterprises, Alliance to Save Energy, CH2 M Hill International Services, and the World Environmental Center.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Reduction in budgetary subsidies for (a) power and (b) coal sectors(\$ millions)	(a) 625 (1995) (b) 1.6 (1995)	(a) 400 (1999) (b) 1.5 (1999)
Percent of energy consumption above OECD levels	30% (1995)	15% (1999)
Private investment in the power sector (9 millions)	0 (1995)	750 (1999)
Percentage of tons of emissions reduced from thermal power plants	1.1m SOL 23 noxious gases (1995)	10% reduction from baseline (1999)



TITLE: Environmental Management, 110-S001.6

STATUS: New

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$4,500,000 Freedom Support Act

INITIAL OBLIGATION: FY 1999; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: Improved capacity for environmental management to promote sustainable economic growth.

USAID Role and Achievements to Date: Earlier USAID activities in environmental health developed a strong linkage between environmental concerns and economic development. Initial work helped define preliminary national policies and legislation regarding the environment and demonstrated through pilot programs better environmental management practices.

USAID supports the Ukraine Council and Work Group Program to Promote Sustainable Development, which was created to identify institutional barriers to sustainable development and work toward establishment of national policies to help overcome these barriers. Under USAID's auspices, the U.S. Environmental Protection Agency is managing the establishment of a new environmental resource center in Ukraine similar to that successfully operating in Budapest for Central Europe. Among other things, the center will provide a linkage between industry and environmental standards required to participate in the world market place.

In the water sector, USAID is assisting the city of Lviv to establish an economically and technically sustainable municipal water utility (vodokanal) through significant improvements to energy efficiency, reduced leakage and improved hydraulic pressure. USAID is collaborating with the World Bank to assist Lviv in qualifying for a \$40 million loan to upgrade the water infrastructure. In addition, USAID is planning a 6-10 city roll-out of the Lviv program to achieve more efficient and economically sustainable municipal water utility operations. USAID's Kaniv Reservoir project completed the development of a point source water quality assessment and monitoring model. Laboratory equipment has been procured and a water quality assessment and monitoring laboratory established within the Ministry of Environment. USAID is applying the model to the Lower Dnieper River Estuary project. A USAID grant supported technology transfer and the establishment of a joint venture enterprise, which can produce a compact, cost-effective, small-system drinking water purification units for areas in need.

In the Carpathian region, USAID supports environmentally sound small businesses in the wood processing industry to reduce the timber required for operations for more efficient resource utilization, and reduce waste products and usage of energy-inefficient equipment. An action plan has been developed which identifies immediate opportunities for partnerships with U.S. private enterprises and other donor sources to initiate investments in environmentally sound businesses in the wood-processing sector.

Within the large industrial sector, waste minimization/energy conservation demonstration projects at enterprises located in the Donetsk and Dnipropetrovsk regions have already yielded

several millions of dollars of annual savings, increased industrial energy efficiency and the prevention of hundreds of tons of pollutant from being released into the environment. Companies like the Azovstal Metallurgical Plant in Marioupol are replicating waste minimization actions using their own investment funds. USAID is also supporting the establishment of private, energy service companies that will continue to develop an indigenous business sector that promotes and expands implementation of energy efficient measures. In the agriculture sector, USAID is demonstrating and transferring alternative approaches and techniques for pest and pesticide management. Currently the project is addressing issues related to stockpiled pesticides, pesticide storage, and registration of pesticides.

In the context of USAID's Chernobyl-related work, USAID funded the procurement of a Mobile Radiological Laboratory. The laboratory will be used to support radiological assessments like that currently planned for the town of Slavutych (located 30 km from Chernobyl). USAID, in collaboration with the EU and GOU, published an action plan to address the social impact of the closure of Chernobyl.

Description: USAID's environmental program aims to (1) promote an integrated approach to the environmental and economic policy development and planning processes of national and local policy making institutions; (2) build local capacity within the government, the private sector, and the NGO community to create an institutional framework that will provide guidance on environmental issues while supporting Ukraine's transition to a market economy; (3) develop safer and more economically sustainable potable water infrastructure and environmentally sustainable agriculture and industrial sectors; (4) increase Ukrainian Government's compliance with international environmental standards and guidelines; (5) address the social impact of the closure of Chernobyl; (6) promote energy efficiency and energy conservation technologies and processes, and (7) under the Chernobyl MOU as well as through the G7-Ukraine Nuclear Safety Working Group activities, provide staff support for monitoring and facilitating least cost energy investments, decommissioning, safety upgrades, and sarcophagus implementation plan.

Host Country and Other Donors: USAID coordinates with the Ukraine-U.S. Council and Work Group Program, whose members are drawn from the Government of Ukraine, including six Cabinet Ministers, and from local and international private sector companies, NGOs, and the international community. USAID cooperates with the World Bank on the upgrade of Lviv's water supply and industrial waste management in Donetsk. The EU is a partner on the Chernobyl Social Impact Study and on environmental proposals and programs. Discussions are continuing with EBRD on energy efficiency investments. USAID participates actively in UNDP environment donor meetings. Through the Chernobyl program USAID collaborates with UK, Canada, Japan, Italy, France, EU and many other donor countries.

Beneficiaries: Currently the primary beneficiaries are the citizens of Lviv, Donetsk, Dnipropetrovsk, Kiev, Crimea, Slavutych, Ivano-Frankivsk, Kharkiv, and Odessa.

Principal Contractors, Grantees, or Agencies: CH2M-Hill has been USAID's principal implementor for Ukraine environmental activities since 1994. With this contract ending in September 1998, the principal follow-on contractor is currently being determined. USAID has also funded advisors from the U.S. Environmental Protection Agency and the Department of Energy. Other implementers include Virginia Tech, World Environment Center, Hagler Bailly, Management Systems International, ISAR, Burns & Roe, Alliance to Save Energy, Biodiversity Support Project, and City University of New York.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Environmental laws and regulations include market incentives	0 (1995)	7 (1999)
Increased access to water services (hours) by hospitals and other public activities	0-3 (1996)	24 (1999)
Number of environmental education centers established	1 (1995)	4 (1998)
Number of independent energy efficiency and waste reduction organizations	0 (1995)	20 (1999)
Safer more economically sustainable pesticides practices adopted in agriculture (# of programs)	0 (1995)	3 (1999)
Safer more efficient production practices adopted by industry (plants with clean technologies)	0 (1995)	1,000 (1999)



TITLE: Citizens' Participation, 110-S002.1

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$5,000,000 Freedom Support Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: Increased citizen's participation in political/economic decision-making.

USAID Role and Achievements to Date: USAID is promoting the active participation of citizens in political and economic decision-making through support to civic action groups, public-policy NGOs, the news media, political parties, and democratic free trade unions. USAID assists government entities with improving election administration, drafting legislation, and educating the public on the democratic process. USAID supports the production of non-state daily and weekly news programs which are broadcast nationwide, improved operation of newspapers as well as development of a cadre of news professionals in both the print and broadcast media. USAID programs provide technical assistance, training and access to information, and to a lesser extent commodities, to counterparts in the Ministry of Justice, the courts, Ukraine's top law schools, the Rada — including key committees and political factions — the presidential administration, the Central Election Commission, legal associations, and municipal governments. Programs also provide training and support to legal professionals, law students, and non-government organizations working in the sphere of legal reform.

As a result of USAID assistance, non-government newspapers now directly compete with government newspapers. One regional paper increased its subscription rate by more than 10% soon after receiving USAID-funded assistance and advice on advertising, financial management, and product design. Virtually all of the leading journalists and media technicians working on today's most successful non-state TV news programs previously received USAID-funded training and/or worked at the USAID-funded media center. Quality informational programs produced by the media center are broadcast on state TV, including the daily news program, *Vikna*, which sets the standard for news reporting. Although the government has dropped independently produced news programs from the state channels, most of the USAID-sponsored programs continue to be aired on independent channels. The formerly USAID-funded non-profit training and production facility has become affiliated with the flagship station of a new commercial network of independent TV stations reaching every region of the country. Ongoing training programs for regional journalists continue to produce news programs of such high quality that they are sought by independent TV companies.

Since 1991 the number of non-governmental organizations (NGOs) has grown from a handful to approximately 5,000, and thousands of Ukrainians, including judges, journalists, attorneys, newspaper managers, political party activists, NGO leaders, civic activists, legislative drafters, municipal government leaders, law faculty, and trade union leaders, have received training that is directly applicable to their democratic reform efforts. With USAID assistance, Ukraine adopted a new election law that eliminated many problematic provisions in the previous law such as the

50% minimum voter turnout requirement. Also with USAID assistance, a non-governmental poll monitoring organization was created to serve as an election administration watchdog.

Citizens and NGOs are pursuing, and often prevailing in, legal challenges to activities that have caused, or would cause, environmental damage. As a result of NGO advocacy, there have been reversals of government policy that had previously been determined to be outside the interest of the citizens. Courts have ordered damage awards to citizens whose legal rights had been violated, such as the case in which the courts ordered an enterprise to reinstate and compensate the chairman of an independent trade union who had been fired for his union activities. Public policy journals and public opinion polls are being published, a popular political TV program is produced by an influential public policy NGO, and human rights and freedom of press violations are being monitored and publicized by watchdog NGOs.

Specifically with regard to women's issues, with USAID support the number of active women's NGOs has doubled since 1996. Unbiased public information on human rights, legal defense, health, access to western scholarships and grants, and advocacy issues is being utilized by an increasingly wider network of Ukrainian women. Three women's credit unions have also been created to support rural women entrepreneurs and farmers. Unemployed women, representing over 70 percent of Ukraine's unemployed workforce, are becoming small business owners, contributing to privatization of the economy. As follow up to the Fourth World Conference on Women in Beijing, representatives of a consortium of Women's NGOs drafted a Ukrainian National Platform for Action which was adopted by the Ukrainian Parliament as a Resolution on September 8, 1997. As a result of the Consortium's advocacy efforts, many Ukrainian women's organizations now sit on national and local level advisory boards that are implementing the articles of the Platform. Each implementor promotes interaction and coalition-building among non-governmental organizations to help build a civil society in Ukraine.

Description: USAID is assisting Ukraine in the development of a professional, independent, and pluralistic mass media by encouraging journalistic reform, helping raise professional standards and increasing the flow of information in and out of Ukraine. USAID is also working with the government, political parties, candidates, NGOs, and the general public to strengthen the electoral process and a representative form of government, seeking to promote public understanding of, and confidence and participation in, Ukraine's electoral system. Through public service announcements, town hall meetings, candidate debates, and other media, citizens are given the opportunity to learn more about candidates and the electoral process, and are encouraged to take full advantage of their rights in a representative system. USAID-funded activities support various public-policy, advocacy, human rights, and "think tank" organizations to promote a more effective and sustainable role in the political process. These activities also strengthen Ukraine's civil society by increasing public awareness of and participation in, the processes of political and economic reform. This is especially important given the pervasive public cynicism toward government and failure to engage the legal system or public policy debate due to lack of trust and confidence in political processes.

Host Country and Other Donors: USAID works in concert with the Central Election Commission, committees of the Parliament (Rada), the Eurasia Foundation, the EU, United Nations Development Program, the Canadian International Development Agency, and the British Know-How Fund. The Renaissance Foundation is also active in citizen participation activities.

Beneficiaries: The Central Election Commission, Ukrainian NGOs, political parties, independent media and trade unions all benefit from USAID support for and promotion of citizen participation and education activities. Ukrainian citizens also benefit from system improvement as a more informed electorate.

Principal Contractors, Grantees, or Agencies: USAID programs in this area are implemented by Freedom House, Internews, the Free Trade Union Institute, the National Democratic Institute, the International Republican Institute, IREX, NIS-US Women's Consortium, Eurasia Foundation and the International Foundation for Electoral Systems.

Major Indicators.

	<u>Baseline</u>	<u>Target</u>
Percentage of people who believe they could do something about an infringement of rights by the government	6% (1996)	16% (1999)
Percentage of people who believe that legal protection in defending their rights and interests is sufficient	7% (1996)	15% (1999)
Number of medium and large cities (population greater than 250,000) with coverage of national news by non-government stations	3 (1995)	10 (1999)



TITLE: Legal Systems, 110-S002.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$2,500,000 Freedom Support Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: Legal systems that support democratic processes and market reforms.

USAID Role and Achievements to Date: USAID assistance supports the development of a new legal framework for Ukraine, advancement of constitutional and legal reform, establishment of a professional and independent judiciary, and greater public knowledge of legal rights and the legal system. USAID activities inherently promote efforts to combat crime and corruption and promote transparent and ethical government conduct.

USAID provided key support to Ukraine in the process of adopting a new Constitution in conformity with Western norms. USAID-sponsored conferences, publications, and TV shows kept policy-makers, legislators, students and the general public informed of the constitutional drafting process. USAID was responsible for the introduction of *pro bono* legal clinics at law schools where students get course credit while providing free legal advice to pensioners and others unable to afford private legal counsel. USAID supported a judicial training center to teach new legislation and court procedures, and provided training to lawyers, judges and the public on the substance and procedures of legal challenges concerning environmental impact. USAID support to law schools resulted in the addition of 26 new subjects to law school curricula at top law departments. USAID has conducted training for hundreds of judges from the General, Arbitration and the Constitutional Court on judicial reform and new Ukrainian legislation. USAID funded the procurement of computer and printing equipment for the Supreme Court and Supreme Arbitration Court to facilitate access to legal databases, printing of court decisions and educational materials, and the establishment of in-house continuing education for all judges; and provided each of the five largest law schools, representing 80 percent of law students, with in-house publishing equipment allowing them to reproduce new course curricula.

Description: USAID-funded legal assistance activities include legislative drafting support to the Rada, presidential administration, and Ministry of Justice related to the civil code, administrative law reform, an ethics code for government officials, a freedom of information law, and other key legislation; training and exchange programs for judges; procurement of computers and databases for the Courts giving judges timely and reliable access to current legislation and records of court decisions, court gazettes, and training materials; training for public prosecutors in their new role under the new Constitution; assistance revising law school curricula and texts to provide students with post-Soviet study materials; acquisition of Internet access at law schools; formation of an Association of Law Schools that will promote reforms in legal education and strengthen standards for law school accreditation; development of an independent National Bar Association; continuing legal education programs for lawyers; introduction of *pro bono* legal clinics at law schools; support to the Ministry of Justice in designing information systems, and

strengthening its ability to review normative acts and procedures as required by law; grants to human rights, legal, and legal advocacy NGOs; support for mediation groups and alternative dispute resolution mechanisms; and support for programs related to crime and corruption.

Host Country and Other Donors: The Ministry of Justice, Presidential Administration, the National and Subnational Radas and the secretariat, and the courts are all actively engaged in the reform process. USAID coordinates its activities with those of EU, the Government of the Netherlands, Canadian International Development Agency, the British Know-How Fund, and other international donors, as well as the Ukrainian Legal Foundation. USAID is also coordinating efforts with the World Bank to ensure complementarity with the Bank's planned Legal Reform loan.

Beneficiaries: The Ministry of Justice, Supreme Court, Higher Arbitration Court, law schools, students, judges, lawyers, legislative drafters, and the National and Subnational Radas all directly benefit from USAID's activities in legal system reform. The common citizen when dealing with the legal system also benefits from system improvements and more knowledgeable jurists and lawyers.

Principal Contractors, Grantees, or Agencies: USAID's legal system reform activities are implemented by Associates in Rural Development (ARD), Checchi, American Bar Association/Central and Eastern Europe Law Initiative (ABA/CEELI), Indiana University/US - Ukraine Foundation, Search for Common Ground, Management Systems International, and the U.S. Association of Former Members of Congress.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Administrative Law Code	None (1995)	Implemented (1999)
Number of oblast courts of general jurisdiction		
With access to current texts of law	0 (1995)	200 (1999)
Percentage of shareholders polled indicating familiarity with basic enterprise shareholder rights (responding "excellent" or "good")	11% (1995)	22% (1999)



TITLE: Local Government, 110-S002.3

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1998: \$5,500,000 Freedom Support Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: More effective, responsible and accountable local government.

USAID Role and Achievements to Date: USAID's major priorities in municipal development are: increased participation and access by the majority of Ukraine's population to information about government operations; improved organizational skills among non-governmental organizations, and increased access to decision-making fora; improved financial planning and municipal service delivery; improved local government capacity and increased local authority; and greater transparency of government operations through increased publications of fiscal activity.

USAID has provided local governments with training and technical assistance in management, financial planning, municipal operations, and budgeting through both in-country and cross-border exchanges with public and private organizations. Dramatic improvements in some communities' transportation services have resulted in significantly improved public perception of local government. Four cities also adopted financial analysis methods and operating/capital budgets to help exercise their new authority to raise revenue and plan expenditures. USAID-sponsored activities have promoted more open and responsive city government operations, public accountability of local officials, and increased citizen participation. Open, competitive procurement procedures, budgeting processes, distribution of annual reports, and public hearings have been introduced. A zoning manual has been distributed, and five cities also have developed zoning rules and enlarged boundaries and schemes of planning restrictions. Ten local governments were assisted in instituting and implementing computerized titling and registration. Laws on Local Self-Government and on local State Administrations were passed. The USAID-supported Ukrainian Association of Cities (UAC) assisted in drafting the Local Self-Government bill, and continues to work on local tax, budget and fee issues, as well as lobby the central government for greater decentralization.

The process for housing sector reforms has been documented in how-to manuals and model legislation and disseminated to 4,200 officials and thousands of residents in 196 localities throughout Ukraine. In late 1997, responsibility for this program was transferred from the American firm PADCO to a new Ukrainian NGO formed by Ukrainians who formerly worked for PADCO. At the end of FY 1997, 70 separate residential building maintenance contracts with private firms were in process, affecting more than 210,000 families in 35 cities. Residents of an additional 1,110 buildings have formed and registered condominium associations (or were nearing completion of this process) covering 102,500 more families.

The Urban Water Project in Lviv introduced a successful model for financially viable and sustainable vodokanals. The USAID-funded Ukraine Council to Promote Sustainable

Development endorsed institutional, management and tariff reforms for Ukraine's urban water/wastewater sector which were included in the new Law on Taxation of Profit of Enterprises. The Lviv Pasichna water distribution pilot project was completed successfully, after increasing water output to 35,000 residents by 75%. In demonstration projects initiated in FY 1997, 42 compact, cost-effective water purification units are being installed in institutions such as hospitals where the lack of potable water poses a great risk to public health.

Description: USAID's municipal development program is focused on: improving local government management and administrative capacity (particularly in the areas of financial planning and management, budgets, performance monitoring, and management); municipal service delivery (including the longer term goal of economic development); housing, land management, and development (including zoning issues); supporting efforts of local governments to be more effective, responsive and accountable on a sustainable basis; developing and disseminating models of good practice for local government; building and strengthening Ukrainian institutions, including NGOs, as well as using Ukrainian and Polish professional and institutional resources; increasing citizen knowledge and participation in government; and improving transparency.

The Parliamentary Development Project, implemented by the USAID-supported Indiana University/U.S.-Ukraine Foundation, is working with UAC, the President's Foundation on Local Self-Government and the Association of Democratic Councils of Ukraine to train targeted local councils on legislative procedures, committee structures and operations, citizen relations, budget processes, and legislative-executive relations. The UAC will also continue to work toward future legislation needed to implement the constitutional mandate to redefine municipal functions, finance, control over property, and intergovernmental relationships.

The USAID-supported Housing and Municipal Reform Support Center continues to promote an emerging industry of private service companies that are more responsive to residents' needs. Also, now that the mechanism is in place, the emphasis will be on encouraging residents to form and register an unlimited number of associations in the years to come.

Building on the success of the Lviv Urban Water Project, two pilot roll-out projects are planned within the next half year, followed by up to 10 cities over the next three years as part of a proposed World Bank project. The success of this effort hinges on building local institutional capacity to enable vodokanals to establish tariff bases that fully cover operational, capital repair, and investment costs.

Host Country and Other Donors: The EU has a technical assistance project in the area of self-government and a city twinning program focusing on cooperation between cities and the EU; the UN Habitat II program conducts training courses for self-governance leaders in management; the World Bank reviews intergovernmental finances and sector loans and has an Urban Coal Pilot and Social Protection Support Projects; The Canadian International Development Agency assists the Ukrainian Academy of Public Administration in becoming a self-sustaining institution;

Polyp Orlyk Institute for Democracy supports local government officials in Ukraine under a Pew Grant; and the British Know-How Fund is strengthening regional government in Crimea.

Beneficiaries: Mayors, city administrators, local government officials and policy makers are the primary beneficiaries of these programs through increased local authority and improved management. The secondary beneficiaries are the citizens through improved services and greater transparency of government operations.

Principal Contractors, Grantees, or Agencies: Research Triangle Institute, U.S.-Ukraine Foundation, Academy for Educational Development, IREX, USIA, Eurasia Foundation and ACCELS.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
Increase in number of businesses in registered Lviv and Kharkiv	14,321 (Lviv) 1996 19,916 (Kharkiv) 1996	5,000 new (1998)
Number of cities using market-oriented financial analysis methods	0 (1995)	25 (1999)
Law on local self-government drafted, submitted, passed, implemented, and enforced	No action (1995)	Enforced (1999)
Number of cities with annual financial reports made available to public	3 (1996)	25 (1999)



TITLE: Social Benefits, 110-S003.2

STATUS: Continuing

PROPOSED OBLIGATION AND FUNDING SOURCE: FY 1999: \$9,900,000 Freedom Support Act

INITIAL OBLIGATION: FY 1995; **ESTIMATED COMPLETION DATE:** FY 2005

Purpose: Improved sustainability of social benefits and services.

USAID Role and Achievements to Date: USAID is supporting reform of the Ukrainian social service sector with a twin strategy: first, restructuring the social service sector to meet long-term needs of society, and second, meeting the immediate needs of vulnerable populations. This work involves restructuring the respective roles of government and private sector, with a special effort being made to support and develop NGOs, which already are serving vulnerable groups and which have a long-term role to play in a restructured social services sector.

Since 1999, USAID's Counterpart Humanitarian Assistance Program (CHAP) has provided more than \$43 million worth of humanitarian aid to government social service institutions and local NGOs providing needed social services. Since August 1996, this program has provided approximately \$10 million worth of clothing, bedding, footwear, furniture, and other humanitarian assistance to all 280 orphanages and boarding homes for the elderly and severely disabled under the Ministry of Social Protection. In addition to providing humanitarian support to government social service institutions, USAID provides humanitarian aid to the most needy through local social service NGOs. Since 1995, over two million needy Ukrainians have been reached through more than 300 local NGOs.

USAID's Counterpart Alliance for Partnership Program (CAP) provides technical and financial support to Ukrainian social service and public policy NGOs. In partnership with four American and one Ukrainian organization, CAP assists local NGOs to address the needs of the elderly, disabled, and disadvantaged children. CAP is also working to improve the legal and regulatory environment in which Ukrainian NGOs operate. Since October 1997, CAP has awarded 35 grants totaling about \$400,000. In addition, 700 Ukrainian NGO leaders have received training locally.

With USAID assistance, the GOU has created the first means-tested social benefits program, the housing subsidy program, in which five million families have received housing subsidies so that no family pays more than 15% of its income for housing and communal services. The program has been very successful, increasing revenue to the GOU by approximately \$1 billion a year as families with higher incomes pay more for their housing and communal service costs, and showing the GOU the benefits of reforming its social sector programs.

USAID's health financing reform program has enabled health care leaders in Lviv and Odessa to undertake reforms resulting in a more efficient allocation of their scarce health care budgets, initiation of cost recovery, and implementation of cost accounting and cash management systems. In 1997 alone, over 150 health care administrators and practitioners were trained in

financial management, health care system restructuring, and family medicine. Ukraine has also begun accrediting hospitals, which is improving the quality of services delivered.

Description: USAID is providing technical assistance to the Government of Ukraine and humanitarian assistance to the people of Ukraine in order to reduce human suffering by providing disaster relief and humanitarian assistance to address the critical needs of vulnerable groups, particularly children, the disabled, and the elderly. USAID is also working to strengthen the development of NGOs through partnerships between U.S. private voluntary organizations and local NGOs so that sustainable NGOs can provide needed social services and advocacy for citizens where the government and the private sector cannot. An important part of USAID's NGO strengthening program is improving the legal and regulatory environment under which NGOs operate, given that the legal status of NGOs in Ukraine is not well defined. USAID is also improving the capability of the GOU to provide social benefits and services that are fiscally sustainable and targeted to provide assistance to the neediest families. This includes technical assistance to help refine and build support for the new income-based subsidy program on housing and utilities, and to help develop a broader program of means-tested subsidies for the needy. The health financing reform project is working to reduce the cost of health care by supporting reorientation of health care delivery away from long hospital stays and toward clinic visits, and by introducing market incentives. USAID's work in social sector restructuring includes assisting the GOU to reform their pension and unemployment systems and with implementation of a national social protection data collection and monitoring system.

Host Country and Other Donors: Activities to help Ukraine develop a sustainable NGO sector are on the agenda of many international donors and organizations active in Ukraine, including the EU, Canada, Great Britain, Germany, Soros Foundation and MOTT Foundation. Price increases for housing and communal services are a requirement of Ukraine's agreement with the IMF.

Beneficiaries: Low-income Ukrainian children, and adults (especially pensioners and women) at selected sites in Lviv, Odessa, Donetsk and Kiev are among the beneficiaries. Ukrainian NGOs and charity organizations, hospitals, orphanages, boarding houses, invalids, the elderly, and most other vulnerable groups benefit in some way from USAID activities in this area.

Principal Contractors, Grantees, or Agencies: Chemonics, The Bancroft Group, Planning and Development Collaborative International, FMI, Smith-McCabe, Abt Associates, Counterpart Foundation, World Learning, and Eurasia Foundation.

Major Results Indicators:

	<u>Baseline</u>	<u>Target</u>
GOU spending on social benefits/services as % of GDP	26.7% (1995)	20% (1999)
Percentage of housing and facilities costs recovered as a % of-total cost	4% (1995)	100% (1999)
Public support for targeting subsidies for the poor vs. for all citizens	45% (1995)	75% (1999)